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FORTUNE FINANCE

FOCUS & CLARITY

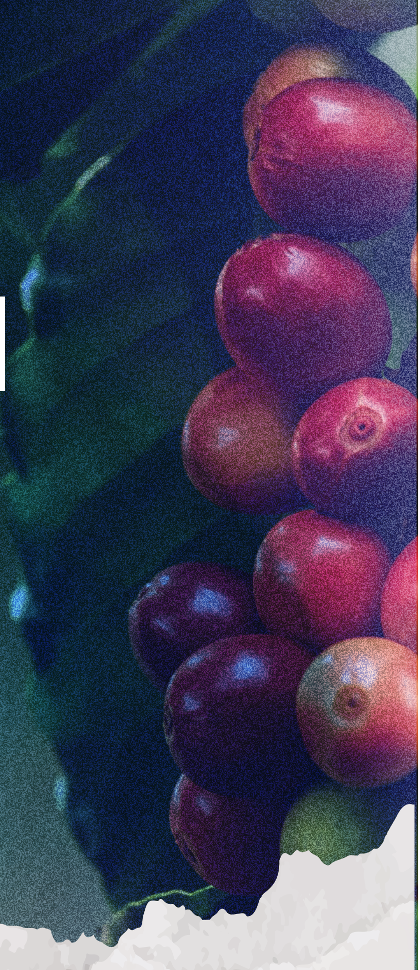
Does the Financial Sector Leave Women Behind?

Ethiopia's Changing Commercial Banking Industry Landscape

The Underrepresentation of Women in the Financial Sector

A Profitable Oasis in a Desert of Challenges

BII & FMO UNVEIL US$ 40 MILLION COMMITMENT TO Dashen Bank



The First Long-Term Foreign Commitment to Ethiopia's Financial Sector

Dashen Bank

British International Investment

FMO Entrepreneurial Development Bank

British International Investment (BII), the UK's Development Finance Institution (DFI) and impact investor, and FMO, the Dutch entrepreneurial development bank, today announced their joint commitments of up to US$20 million each to Dashen Bank (Dashen) – one of Ethiopia's largest private sector banks. The loan will help to drive agricultural exports and provide access to much-needed foreign exchange (FX) within Ethiopia.

- Innovative facility enables the progressive local bank to expand lending to exporters.
- Provides longer-term USD capital to agricultural exporters for the purchase of new machinery to automate and expand product lines, increasing food availability.
- Increases Ethiopia's agricultural exporters' earning potential and boosts productivity.

DFI collaboration is key to private sector development. Through this commitment, BII and FMO become the first foreign financial institutions to provide long-term funding to Ethiopia's financial services sector under the new intermediation directive for banks issued by the National Bank of Ethiopia in 2021. This is part of their collaborative efforts to help catalyze the market and build confidence amongst international and domestic investors so as to mobilize more private capital.

This partnership will also help Dashen to enhance its governance, risk management, environmental, and social, as well as gender practices and bring these to the highest standard in the country.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A Profitable Oasis in a Desert of Challenges

The growth narrative of private banks in Ethiopia over the past five years has been one of triumph over adversity, with considerable increases in assets, deposits, and revenues. The efficiency improvements and high levels of capitalization have helped these banks to steadily increase profitability. While challenges exist, particularly of the trend toward higher leverage, the banks appear well positioned to manage these risks.

Under the gaze of Ethiopia's economic landscape, private banks have not merely survived, but thrived, over the past half-decade beginning 2018. A stirring narrative portrays one of growth, diversification, efficiency, and of an industry rising to the challenge of an increasingly complex environment.

With pageantry akin to the River Nile's consistent inflow, the assets of private banks have been on a steady upward climb, echoing the country's economic ambitions. A leap in assets was seen from 2019 to 2020, and then again from 2020 to 2021, akin to a gazelle's graceful bound across the Ethiopian Savannah. This increase could be the offspring of magnified lending activities, among other influences.

There is a fascinating subplot to this broad-based growth.

The growth story has been largely written by lending activities, with loans and advances also seeing consistent expansion. The plot thickened from 2018 to 2019, and again from 2019 to 2020, when lending soared like an Ethiopian vulture catching an updraft. Although the lending winds lost some strength in the subsequent years, the continuing growth indicates an active hand in customer lending.

Deposit growth, the bedrock of banking operations held the same rhythmic consistency of a drumbeat. Here too, significant jumps were noted from 2019 to 2020 and 2020 to 2021. This growth in deposits could be attributed to enhanced marketing efforts, and the increasing number of banks entering into the industry.

The banking landscape transformed subtly, almost imperceptibly.

The loan-to-assets ratio of private banks has risen steadily over the years, suggestive of a growing appetite for lending. At the same time, a shadow looms. The capital-to-assets ratio has been ebbing away, triggering concerns about increased leverage.

Simultaneously, amidst the euphoria of growth, private banks have managed to pull more than one rabbit out of the proverbial hat. The net interest income has steadily increased, signaling growing income from lending activities. In a masterstroke of diversification, other income streams, beyond just lending, have also shown consistent growth.

Unsurprisingly, success begets efficiency. The cost ratio, excluding interest expenses, has been retreating over the years. This suggests an increasing degree of efficiency in banking operations. Profits before tax have been striding forward, signifying increasing profitability. All the while, return on assets (RoAA) and return on equity (RoAE) have maintained stability reminiscent of an Ethiopian highlander's balance, showing resilience in the face of operational challenges.

This orchestration of growth, profitability, and operational efficiencies has led to a symphony of successful performance by the private banks.

Nonetheless, the gradual increase in leverage, indicated by the declining capital-to-assets ratio, may strike a discordant note. As private banks continue to navigate the uncertain waves of the economic seascape, careful risk management and the preservation of profitability will be key.

On the balance sheet, the continual increase in assets, likely fuelled by an increase in loans and advances, stood out like the peaks of the Semien Mountains. However, as the banks' assets increasingly took the form of loans, the composition of their balance sheet began to tilt more heavily towards lending.

A tale of steadily increasing interest income unfolded. This was likely the result of an uptick in loans and advances. While interest expense also grew, it did so at a pace more leisurely than the income it sought to offset, leading to a net interest income that steadily inched upwards.

Saving the best for last, the narrative concludes with a triumphant crescendo of profit before tax. This melody of increasing profitability rang out, year after year, reaching a dramatic crescendo from 2020-21 to 2021-22. The composition of deposits painted an intriguing landscape with saving deposits forming the dominant feature. However, the flow of checking and time deposits grew year by year, like tributaries feeding into a larger river.

Exploring the theme of margins, a fascinating dynamics unfolded. The effective deposit rate dwindled subtly year over year, while the effective lending rate grew, leading to an increasing spread and a more robust net interest margin (NIM). In 2021-22, the NIM swelled to an impressive 8.3pc.

The RoAA and RoAE echoed the delicate song of an Ethiopian woodpecker - fluctuating with a subtle decline over the years, reaching 2.4pc and 17.7pc, respectively, in 2021-22. However, the earnings per share (EPS) was on a consistently rising trend, with a significant leap from 2020-21 to 2021-22.

Another exciting subplot unfolded in employee productivity. The efficiency of the banking workforce improved consistently, year after year, as evident in the steady increase in revenue per employee. Indeed, the banks' staff seemed to move to the rhythm of growth, with branches proliferating each year, matching the increase in the number of employees.

The metric of deposit and revenue per branch showed a steady annual increase, creating a harmony with the rising revenue per employee.

In the face of these successes, however, there lies a note of caution.

The capital-to-assets ratio fell from 14.1pc in 2017-18 to 13.5pc in 2021-22, suggesting that while the banks maintain a robust level of capitalization, they have become more leveraged over time. This is a trend that requires monitoring to ensure the banks maintain a healthy balance between growth and stability.

On the balance sheet of recommendations for these financial institutions, several measures could amplify their performance. An expansion of the deposit base could be achieved through better customer service, attractive interest rates, and targeted marketing campaigns. This would provide banks with additional capital to lend, leading to higher interest income.

Branch network expansion might also be a promising growth path. It would allow banks to reach a larger customer base, bolstering their deposit base and improving customer service. By refining their loan portfolios to target creditworthy businesses and individuals, banks could further enhance their profitability and reduce default risk.

A stronger focus on asset quality, including diligent monitoring and early intervention for bad loans, would help to lower the level of non-performing assets and improve banks' profitability. Investments in technology, including digital platforms for online banking and mobile banking, could boost operational efficiency and customer satisfaction.

Risk management practices need to be more robust to mitigate lending risks. This could include employing credit scoring models, undertaking regular stress testing, and routinely monitoring key risk indicators.

Finally, strengthening corporate governance practices could enhance transparency and accountability, boosting the banks' reputation and standing with shareholders and the public.


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Ethiopia's Changing Commercial Banking Industry Landscape

The evolution of Ethiopia's commercial banking sector is marked by a rise in total assets, shifts in deposit trends, and an increase in digital transactions. However, the industry needs to remain vigilant to maintain this positive trajectory and ensure sustainable and inclusive growth.

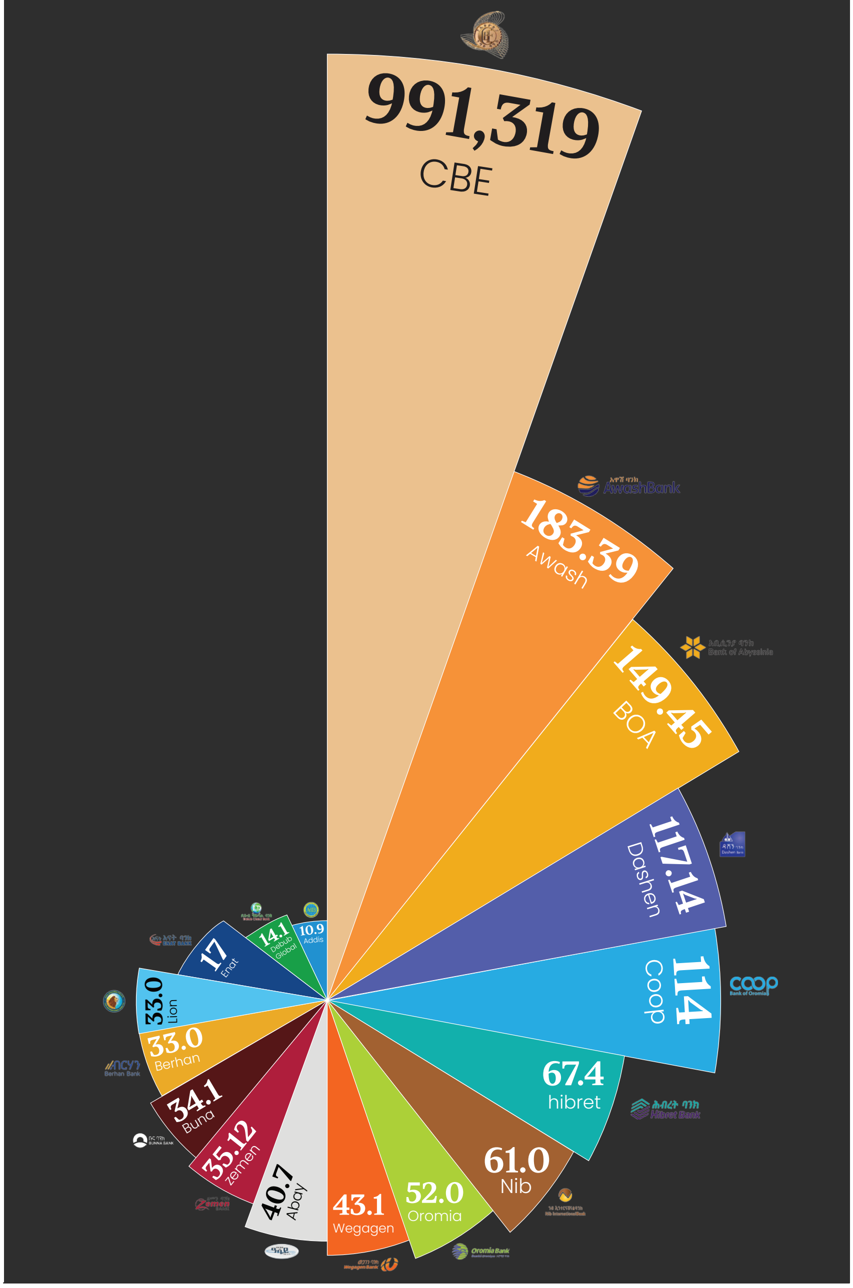
Recent years have shown a distinct evolution in the banking industry, with a substantial expansion of assets and liabilities charting new terrains in the country's economic growth. Analysis of the banks` balance sheets, digital transactions, and deposit trends provides an intriguing lens to examine Ethiopia's economic course and financial stability.

As of 2023, the commercial banking industry reported a remarkable surge in total assets, signifying a strengthening financial sector and a buoyant economy. According to data from the National Bank of Ethiopia (NBE), total assets swelled by an impressive 30pc year-on-year, reaching 2.3 trillion Br, compared to 1.7 trillion Br in the previous year. A surge in assets of this magnitude could reflect domestic and international investors' confidence in the country's financial sector.

Equally notable is the growth in loans and advances, which saw a sharp increase of 35pc, reaching 1.4 trillion Br in 2023. Credit growth is a key indicator of a thriving business sector. It suggests increased capital investment and an expansion of the private sector, which are critical components of a growing economy.

The increase in loans and advances coincides with a shift in the type of deposits held by commercial banks. Time deposits saw a 25pc increase, reaching 600 billion Br, suggesting a growing preference for longer-term savings plans. Demand deposits, however, saw moderate growth of 15pc, totaling 400 billion Br. This shift towards time deposits indicates

The consolidated asset value of private commercial banks and the state-owned Commercial Bank of Ethiopia (CBE) in 2021/22 was 1,998,939,000,000 Br. Although it grew to 2.3 trillion Br in 2023, the illustration here shows the breakdown for 2021/22.



improved financial literacy and suggests that depositors are becoming more comfortable locking their savings for longer periods, a positive sign for the banks.

The savings deposit experienced a significant increase of 40pc, hitting the 800 billion Br mark.

Amidst this substantial growth, the commercial banking industry also saw a digital revolution. The past few years witnessed an explosion in digital transactions, making Ethiopia a rising star in Africa's digital banking scene. In 2023 alone, digital transactions increased by a staggering 50pc, signaling a rapid shift towards a cashless society and revealing the population's increasing comfort with and access to digital technology.

Not to be overlooked is the stability of the commercial banking industry, which has been maintained in spite of this substantial growth. The reserve ratio—a key indicator of a bank's financial health—remained steady at five percent. Despite the aggressive expansion, banks are still well-cushioned against potential financial shocks.

The year-on-year performance of the industry appears to be consistent with the picture that has emerged over the decade. Since the last decade, the total assets of Ethiopia's commercial banks have exhibited a striking surge.

At the end of 2022, total assets saw a considerable leap from 645 billion Br in 2013, according to data from the central bank. The 194pc increase in assets points to an economy in expansion, with banks playing a crucial role in accumulating capital for investments and ensuring financial intermediation.

Accompanying the growth in total assets, the banking industry also witnessed an upswing in loans and advances. From 30pc shares in total assets in 2013, the loans and advances have reached 40pc shares in 2022. A thriving business sector, with banks showing an increased willingness to provide credit to businesses, facilitate economic expansion.

However, the expansion of loans must be analyzed in conjunction with the Non-Performing Loans (NPL) ratio. It stood at 2.7pc in 2022, marginally higher than the 2.2pc in 2013, but still well within the range of the global average. While banks are more open to risk, they effectively manage these risks to prevent financial instability.

The increasing prevalence of digital transactions also paints an interesting narrative. Mobile and Internet banking transactions jumped from a mere two percent of total transactions in 2013 to a whopping 30pc in 2022.

This rise in digital transactions demonstrates the banks' adaptability to technological advancements and consumers' evolving preferences, suggesting an increase in the overall efficiency of the banking sector.

A shift in the type of deposits also emerged over the years.

Demand deposits, which comprised 40pc of the total deposits in 2013, were reduced to 32pc by 2022. Conversely, savings deposits saw an increase from 30pc to 40pc in the same period. These changes signal the public's rising confidence in the banks, with consumers showing a greater propensity to commit their funds for longer.

The banks' financial stability also manifested in the form of the reserve ratio. Despite the industry's rapid expansion, the banks' reserve ratio stayed consistent at 10pc over the past decade, meeting the requirements set by the central bank. Their ability to maintain adequate cash reserves to meet immediate withdrawals ensures financial stability.

To provide some perspective, the commercial banking industry's growth appears to have positively influenced Ethiopia's overall economic growth. The country's GDP grew by an average of 6.8pc annually over the past decade, a figure well above the Sub-Sahara African average.

The credit growth within the banking industry is clearly correlated with this robust economic performance. As banks continue to lend more, businesses get more opportunities to invest and expand, propelling the economy's wheels.

Despite these promising indicators, challenges persist.

The high levels of non-performing loans and the decrease in deposit mobilization suggest that Ethiopia's banks may face significant challenges. While these issues are not insurmountable, they would require a comprehensive strategy involving stricter credit risk management, initiatives to improve financial literacy and inclusion, and possibly financial sector reform to ensure the long-term viability of Ethiopia's financial sector.

While the growth in digital transactions marks progress, it also exposes the industry to new risks, such as cyber-attacks ●

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Ethiopian Capital Market Authority

KEY CONSIDERATIONS FOR SMART STOCK PURCHASES

01 RESEARCH EXTENSIVELY

Empower your decisions by delving into comprehensive research. Prioritize understanding the financial health, market position, and growth potential of the companies you're eyeing. Informed choices pave the way for a more secure and rewarding investment journey.

02 UNDERSTAND THE RISKS

It's essential to recognize that every investment comes with inherent risks. Be well-informed and prepared by understanding potential downsides and acknowledging the reality of market fluctuations. A proactive approach to risk awareness is key to navigating the dynamic landscape of investments.

03 DIVERSIFY YOUR PORTFOLIO

Unlock stability in your investment portfolio through diversification. Spread your investments across diverse industries to safeguard against risks linked to a single sector. Embrace a well-balanced approach to enhance the resilience of your investment strategy.

04 BEWARE OF EXAGGERATED PROMOTIONS

Proceed with caution: Beware of unusual and exaggerated promotions. Sound investments thrive on transparency, not extravagant marketing. Prioritize due diligence over flashy promotions for a secure and informed financial journey.

05 CHECK COMPANY BACKGROUND

Investors, your due diligence matters. Prioritize success by investigating the company's history, leadership, and reputation. Opt for transparency and trustworthiness, as these qualities often define a more secure and reliable investment opportunity

06 FINANCIAL STATEMENTS ANALYSIS

Make informed choices by delving into the company's financial statements. Scrutinize for indicators of consistent revenue growth, profitability, and prudent financial management. A meticulous review of these aspects enhances your ability to identify robust and promising investment opportunities.

07 STAY INFORMED

Stay engaged by maintaining continuous market awareness. Stay informed about industry trends, economic developments, and company news. In a dynamic market, knowledge is your most powerful asset.

08 LONG-TERM PERSPECTIVE

Keep your eyes on the horizon. While short-term fluctuations are normal, adopting a long-term perspective is key. A well-researched investment has the potential to yield positive returns over time, so stay focused on your financial goals for lasting success

09 CONSULT FINANCIAL ADVISORS

Consider the expertise of financial professionals. Seeking advice from a qualified financial advisor can provide personalized guidance tailored to your individual financial goals. Empower your investment journey with expert insights.

BEFORE YOU INVEST

10 ASSESS YOUR RISK TOLERANCE

Success begins with self-awareness. Understand your personal risk tolerance—let your investments align with your financial goals and ability to navigate market volatility. A well-aligned strategy ensures a resilient and rewarding investment experience.

11 READ PROSPECTUSES CAREFULLY

Safeguard your decisions by being diligent. Request and meticulously review prospectuses and other offering documents. These legal materials hold crucial information about your investment, empowering you to make informed and confident choices.

12 MONITOR INVESTMENTS REGULARLY

Empower your financial strategy with vigilance. Regularly monitor your investments as market conditions and company performance evolve. Being proactive allows you to adapt, ensuring your portfolio remains aligned with your financial goals.

Abay Bank Leaps in Profit Defying Liquidity Hurdles

Shareholders may rejoice growing EPS, but declining liquidity ratios signal caution

Abay Bank has reported a substantial surge in net profits, reaching an impressive 1.55 billion Br for the fiscal year 2022/23. This significant growth course stands out in an industry often dominated by long-established banking giants, displaying Abay Bank's rapid ascent in the competitive banking landscape.

Its financial performance reflects resilience and adaptability in the face of global and domestic headwinds. Its focus on operational efficiency, revenue enhancement, and strategic expansion has yielded significant financial gains. However, analysts warn that the rising expenses and potential risks in the loan portfolio call for careful management and strategic oversight.

Board Chairman Amlaku Asres, addressing shareholders who met at the Inter-Luxury Hotel two weeks ago, acknowledged the impact of global and domestic turmoils, including the ongoing Russian-Ukraine war and Ethiopia's monetary policy aimed at curbing high inflation rates.

Despite these headwinds, Abay Bank reported a substantial increase in interest income from loans, advances, and central bank treasury bonds, which climbed by 56.8pc to 5.55 billion Br. The Bank experienced a significant surge in service charges and commissions by 91.3pc, amounting to 1.19 billion Br.

Complementing this remarkable financial performance is the Bank's Earnings Per Share (EPS), which saw an increase of 65 Br to 360 Br. This notable rise occurred amidst escalating operational expenses and a strategic boost in the Bank's paid-up capital, which grew by 19.1pc to 4.73 billion Br. This approaches the five billion Birr minimum capital requirement set by the National Bank of Ethiopia (NBE) for 2026, reflecting the Bank's proactive leadership

Abay Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
55.06b Br	47.3b Br	4.73b Br	7.1b Br	4.9b Br	1.55b Br	360 Br
35pc ↑	36pc ↑	19.1pc ↑	61pc ↑	59pc ↑	66.1pc ↑	22.03pc ↑

Illustrated by: *Fortune* Source: Abay Bank Annual Report 2022/23

Yehuala Gessese, President

posture in regulatory compliance.

Abay Bank has maintained a robust Capital Adequacy Ratio (CAR) of 16.7pc, significantly exceeding the regulatory minimum, signalling a strong capital base and financial health.

The President of Abay Bank, Yehaula Gessese, credited the financial success to strategic efforts in improving operational efficiency.

"Our bank recorded growth across all key parameters," he told *Fortune*.

His tenure, which followed Mesenbet Shinkute, the current President of the Addis Abeba Chamber of Commerce & Sectoral Associations (AACCSA), brought over two decades of banking experience, including a vice-presidential stint at the state-owned Commercial Bank of Ethiopia (CBE). His tenure is seen as a crucial factor in driving the Bank's success.

Despite being relatively young, the Bank has adeptly navigated the complex economic environment, delivering impressive financial results.

Its aggressive market penetration and service diversification strategies brought a 66.1pc jump in net profits, doubling not only its growth rate for the previous year but also much higher than the 26.2pc industry average recorded for the fiscal year 2021/22. The Bank posted a 360 Br EPS, demonstrating its success by rewarding shareholders significantly larger than the industry's average of 32.7pc for last year, against a backdrop of rising operational costs and capital increases.

The increase in shareholders' returns is also in sharp contrast to Dashen's, one of Ethiopia's leading banks, posting a declined EPS for the second time this year despite a record net profit of 3.5 billion Br. Dashen's asset management also overshadowed Abay, with a total assets nearly three times that of Abay's. However, although trailing in sheer profit and asset size, Abay Bank excelled in operational efficiency and maintaining a higher net profit margin, exceeding the industry standard.

The Bank's operating expenses also saw a 53.9pc increase, reaching 1.07 billion Br, mainly paid to interest on deposits and wages as well as staff benefits. The latter two registered a significant surge of nearly 81pc to 1.97 billion Br. These rising costs, particularly the hike in loan and asset impairments provisions to 219.3 million Br, reveal potential risks in the Bank's loan portfolio.

Industry analysts warn that the 121pc increase in provision for impairment

of loans and other assets raises potential risks in asset quality, which could affect future profitability. While the Bank has shown an increase in liquidity in absolute terms, the decline in liquidity ratios – including cash and bank balances to total assets and total deposits – should be a concern, according to industry analysts. They note Abay Bank is growing in size, but its liquid assets are not keeping pace, potentially limiting its operational fluidity.

Yehaula acknowledged these rising costs, attributing them to increased rental expenses and salaries compelled by the Bank's expansion. Over the year, Abay Bank opened 110 new branches, bringing its total to 483, and expanded its workforce by 1,636 employees, totalling 8,626.

"We do this to fuel growth," Yehuala told *Fortune*.

Branch managers like Mahteme Girma have noted the impact of the political situation on savings and the restricted mobility of goods due to regional conflicts, which have adversely affected the performance of some branches.

"Customers are only consuming what they've saved," said Mahteme, who runs the Beqlo Bet branch.

He revealed that the tightening of foreign currency had impacted exporters' performance, further exacerbating the branch's slumped activities.

Amlaku Asres, Chairperson

Despite these challenges, Abay Bank has achieved significant gains in foreign exchange dealings, increasing by 37.1pc to 154.93 million Br. This performance was lauded by London-based financial analyst Abdulmenan Mohammed (PhD), noting it as a positive shift from the previous year's declining trend.

One of the 4,430 shareholders, Yonas Mekonen, has expressed satisfaction with the growing EPS. A businessman and among the 823 founding shareholders when the Bank was incorporated 13 years ago, he remains apprehensive about the impending competition as new players are expected to enter the financial sector.

"I hope they start investing in technology," he told *Fortune*.

The Bank's total assets also saw a significant increase, amounting to 55 billion Br, a rise of 35.2pc from the previous year. While the central Bank's recent credit growth cap, limiting increases to no more than 14pc, could potentially impact Abay Bank in the years to come, the Bank managed to grow its loan portfolio by 37.2pc, disbursing 36.47 billion Br.

Abay Bank's total deposits rose to 41.7 billion Br, marking a 28.9pc increase and pushing its loan-to-deposit ratio up by 5.3pc to 87.3pc. Yehuala and his team have positioned themselves to earn more from interest income, although they may face lowered liquidity levels. The Bank's liquidity, in absolute terms, improved, with a cash balance increase of 3.8pc to 8.25 billion Br. However, Abdulmenan noted that relative liquidity indicators, such as the ratios of cash and bank balances to total assets and deposits, showed declines.

"Further reduction of liquidity will affect its daily operation," warned Abdulmenan.

Yehuala, who helmed the bank for the past eight years, reassured that Abay Bank has strategies to maintain healthy liquidity levels, despite temporary year-end declines. He emphasised his management's commitment to sustaining operational stability.

"Temporary declines at the end of the year might occur only to return to normal soon enough," the President told *Fortune* ●

Abyssinia Bank Bucks Economic Headwinds with Profit Surge

■ *Management clutches with tight forex and rising expansion costs*


Mekonnen Manyazewal, Chairperson

The Bank of Abyssinia's strategic focus on interest income has yielded notable results in the fiscal year 2022/23, placing it in a robust position, second only to Awash International Bank in profitability among private banks, despite the challenging economic environment marked by distressing foreign exchange constraints.

Abyssinia's profit for the year rose by 19.6pc to reach 3.87 billion Br. While industry analysts say it is commendable, this performance pales in comparison to the previous year's remarkable 141pc growth rate. Abyssinia's peers, including Dashen, Hibret, and Awash, reported net profits of 3.56 billion Br, 2.29 billion Br, and 6.99 billion Br, respectively, showcasing the competitive dynamics within the industry.

Nonetheless, Abyssinia's earnings per share (EPS) experienced a significant drop, falling to 39pc from 57pc.

Bekalu Zeleke, president of the Bank, attributed the fall in EPS to drops in foreign exchange earnings and the substantial recapitalisation the Bank undertook.

Over the past year, Abyssinia increased its paid-up capital by 43pc, reaching 11.9 billion Br. It is a move following a resolution shareholders passed during the general assembly held last year, which aimed to raise the Bank's capital to 8.3 billion Br.

Abyssinia's capital and non-distributable reserves, including the legal reserve, stood at 16.6 billion Br, with a capital adequacy ratio (CAR) of 10.8pc. While the CAR remains above the regulatory minimum, analysts suggest that Abyssinia's directors and executives should consider a substantial increase as a precautionary measure. Increasing demands and risks in the banking industry compel bankers to maintain a robust capital base for long-term stability and growth.

A key driver of Abyssinia's performance has been its increased lending activities. Interest on loans, advances, and central bank bills saw a significant increase of 46pc, amounting to 20.96 billion Br. This growth in interest income showed the Bank's strategic emphasis on lending as a primary revenue source.

"Our strategy was to focus on interest income," Bekalu told *Fortune*. "We offset the loss in forex."

However, it is a strategy that confronted limitations after the central bank imposed a credit growth cap at 14pc. The industry hopes to see this cap phasing out in December this year. Whether Central Bank Governor Mamo Miheretu lifts the cap remains to be seen, following his public pronouncement that inflation targeting at 20pc will be his top priority in the fiscal year 2024.

Bank of Abyssinia's non-financial intermediation operation has seen mixed results.

Service charges and commissions experienced a steep decline of 51.1pc, falling to 1.42 billion Br. This drop sharply contrasted with the 141.7pc surge in other operating incomes, which reached 514.76 million Br. Abyssinia's foreign exchange dealings continued to be challenging, marking ▸▸

the fourth consecutive year of losses in this segment. The foreign exchange income declined to 223.56 million Br from 774.2 million Br a few years ago, indicating a need for strategic reevaluation.

The London-based financial analyst Abdulmenan Mohammed (PhD) raised concerns over Abyssinia's trend in foreign exchange dealings and suggested a strategic overhaul to gain a reverse.

"The management's approach in this area will be crucial for the Bank's overall financial health and competitiveness," said Abdulmenan.

Bekalu acknowledged the need to adopt a strategy to beef up the forex front.

"We'll focus on export," he told *Fortune*. "This is the only alternative left."

Another significant factor impacting Abyssinia's performance was the rise in expenses, including general administration costs, which rose by 5.8pc to 2.96 billion Br. Interest on savings increased by 45.15pc to 6.14 billion Br. This increase is attributed mainly to a surge in deposits and an upward adjustment in the average savings rates.

The rise is also reflected in the substantial increase in wages and benefits at Abyssinia, which soared by 69.2pc to 7.43 billion Br. Experts have pointed out that this surge in personnel expenses requires careful attention.

Bekalu justified these increases to shareholders by emphasising the stiff competition for human capital in the financial sector. The banking industry faces a major crisis in human resources. With new entrants vying for skilled experts, established banks like Abyssinia are pressured to retain employees with competitive benefits.

"We've to remain vigilant," he told shareholders.

The Bank of Abyssinia has been aggressive in its operation, opening 123 new branches during the year, bringing its total to 864 outlets. Its workforce also grew significantly, with 2,145 new employees joining, bringing the total staff count to 11,508.

Yared Kasiye, an auditor at Abyssinia's Airport Branch, noted the impact of the conflicts in the northeast on customers in construction and trading activities. These conflicts have led to a slowdown in deposit and loan activities, affecting the Bank's operations in these sectors.

Bank of Abyssinia financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
189b Br	170b Br	11.9b Br	22.73 Br	17.5b Br	3.87b Br	390 Br
26.8pc↑	25.7pc↑	43pc ↑	35.9pc↑	45.1pc↑	19.6pc↑	31.6pc↓

Illustrated by: *Fortune*

Source: Bank of Abyssinia Annual Report 2022/23

Abyssinia's provision for loans and other asset impairments saw a sharp increase of 52.5pc, reaching 960.37 million Br. According to industry analysts, this substantial rise revealed a need for closer scrutiny of the Bank's credit management practices, especially given the broader economic challenge.

Abyssinia's total assets experienced significant growth, expanding by 26.8pc to reach 189.51 billion Br. The Bank disbursed loans and advances amounting to 143.8 billion Br, reflecting a growth of 28.9pc. However, this growth rate was lower than that of the previous year. Abyssinia's loan size, larger than Dashen and Hibret, was the second-largest after Awash at 111.1 billion Br.

We've to remain vigilant.

Bekalu Zeleke

President

The Bank also saw a robust increase in deposits, mobilising 158.54 billion Br, an increase of 29.9pc. However, the loan-to-deposit ratio slightly dropped by 1.3 percentage points to 90.7pc, remaining on the higher side of the industry average. Abdulmenan cautioned that such a high loan-to-deposit ratio could lead to severe liquidity problems.

Abyssinia's liquidity level has been a concern, with analysts urging the executives to take measures to prevent further increases. However, Abyssinia's cash and bank balances grew by 14.5pc to 21.15 billion Br, but the ratio of cash and bank balances to total assets slightly decreased to 11.16pc from the previous year's 12.36pc.

Mekonnen Manyazewal, board chairman of Abyssinia, addressed shareholders who met at the Inter-Luxury Hotel on Marshal Tito Road, highlighting the multiple policy changes introduced by the government, from purchasing treasury bonds to amendments in the payment system proclamation. He praised Bekalu and his team for their resilience and employees' commitment to navigating these changes.

Shareholders expressed concerns over the mobile banking platform and customer service quality at branches. Some shareholders were dismayed to learn of the 160 million Br contribution made to Prime Minister Abiy Ahmed Adiministration's passion projects like "Gebeta Letiwled", a notable U-turn from their positive tone in the shareholders meeting held the previous year. Bekalu told the shareholders that the Bankers' Association determined the contribution quota among its members.

Tilahun Tsegaye, who bought shares worth 100,000 Br five years ago, was pleased with the earnings for his shares. However, he expects better performance in the future, suggesting improving customer services, reducing internal expenses, and promoting the institutional image to achieve this.

"We can do better," he told *Fortune*●

Addis Bank's High Hopes, Low Forex, and the Elusive Quest for Lofty Profit

Despite notable gains in loan interest and investment returns, Addis International (Addis Bank) executives have struggled with a substantial reduction in foreign exchange income, which cast a long shadow over the Bank's profitability. In a turn of events aberration to the industry's trend, the outcome has left shareholders reeling after directors reported a precipitous decline in the Bank's annual performance, marking a significant departure from its previously robust growth course.

Addis Bank's net profit plummeted to 223.48 million Br in its operation of 2022/23, marking a 35.2pc decline from the previous year and positioning it behind peers such as Enat, Global, and Berhan banks, which reported profits in the upwards of half a billion Birr. The downturn was emphasised by a dramatic fall in Earnings per Share (EPS), which more than halved to 12.91pc, leaving Addis Bank trailing in the wake of its competitors. The average for 29 private commercial banks was 38pc during the year.

"This ought to have shocked shareholders," said Abdulmenan Mohammed (PhD), a financial analyst based in London, but a keen observer of the domestic financial sector.

The decline in profit should prompt concerns over the Bank's strategic direction and operational efficiency, according to industry analysts. Abdulmenan attributed Addis Bank's unexpected downturn to a significant drop in foreign exchange net gains and a notable rise in expenses.

Hailu Alemu, Addis Bank's president, pointed to high surrender amounts and lower interest on exporters' loans as contributing to his Bank's financial woes.

"We lost half a billion Birr from this," Hailu told *Fortune*, conceding the severe impact of these factors on the Addis Bank's profitability.

Hailu, who holds degrees in accounting and economics from Addis Abeba University, has been with Addis Bank since its incorporation in 2012, serving as its founding president. His background in finance and economics likely informs his strategic approach to responding

Hailu Alemu, President

to tough times the Bank faced. Under his managment, a notable increase in interest on loans and investments in central bank bonds was recorded, rising by 33.8pc to 1.1 billion Br.

The domestic banking industry, known for its fierce competition and rapid changes, has presented a formidable challenge to Addis Bank. With a shareholder base of 15,000 deeply rooted in savings and credit associations, traditional community-based financial institutions, and farmer unions, the Addis Bank's recent performance has been a wake-up call, bringing to the fore the volatile nature of banking during economic headwinds.

Despite these, Addis Bank recorded positive developments, including a 33.8pc increase in interest income from loans and investments, and a modest 8.8pc rise in service charges and commissions. However, these gains were overshadowed by a significant reduction in income from foreign exchange dealings, which plummeted to 79.9 million Br from a high of 203.62 million Br the previous year.

The Bank's ambitious expansion saw the opening of 20 new branches, bringing the total to 132, alongside the hiring of 116 new employees, increasing the total workforce to 1,170. They are among the over 135,000 people the banking industry employs, with a considerable number working within first—and second-generation private banks. Addis Bank is known to have a lean operational model that provides operational efficiencies.

Fasil Sirak is among the staff members who have been with Addis Bank since its foundation over a decade ago. Managing Addis Bank's branch in the Mekanisa neighbourhood, he acknowledged that deposit mobilisation and generating forex were demanding tasks during the year. He saw when interest incomes grow alongside deposit increases, as these funds are often disbursed as loans. He believes in the importance of digital banking services to enhance profitability, advocating for a potential shift in strategy to address the Bank's financial challenges.

Kassahun Bekele, the board chairman, disclosed to shareholders his frustration over the long-awaited plot of land to build the Bank's headquarters, which was pending due to bureaucratic procedures. According to him, acquiring warehouses and properties for branches in Addis Abeba, including condominium houses for branch offices in Bulbula and Bole Arabsa, was pending, while lease agreements around the Qera Ara area were pending.

However, the rate of increase in assets, loan advances, and deposits in 2023 was lower compared to the preceding year. Hailu attributed this to the expanded financial landscape and the entry of new competitors into the market, which has made it increasingly challenging for the Bank to achieve high growth levels.

"Macroeconomic changes play a role in affecting the growth trajectory," he told *Fortune*.

However, Addis Bank's operational costs have surged, with interest paid on deposits, wages, and general administration expenses all recording significant increases. Yet, compared to its peers, wage expenses remained relatively lower, with a more conservative approach to spending. Abdulmenan flagged the Bank's high expenditure on branch rentals, salaries, and interest on time deposits as areas of concern.

Hailue told shareholders that the competitive landscape for talent and customers, intensified by aggressive branch expansion, has put additional pressure on the Bank's financial health.

Addis Bank may have taken a more conservative approach in provisioning for potential loan impairments compared to its peers. There was a drop in the provision for impairment of loans and other assets, which declined to 14.55 million Br from 62.25 million Br. The amount is lower by more than double compared to Enat Bank's 149.3 million Br and significantly behind Berhan Bank's

Addis International Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
12.6b Br	10b Br	1.8b Br	1.7b Br	1.4b Br	223.48m Br	129 Br
17pc ↑	16.3pc ↑	26pc ↑	10pc ↑	31pc ↑	35.2pc ↓	54.2pc ↓

Illustrated by: *Fortune*

Source: Addis Bank Annual Report 2022/23

311.15 million Br.

The loan-to-deposit ratio of Addis Bank increased to 82.7pc from 77.8pc, indicating increased lending activities. However, liquidity analysis reveals a decline in value and relative terms. Its cash and bank balances decreased by a substantial 3.1pc to 2.16 billion Br but lower than some of its peers. It is almost equal to Global Ethiopia's 2.1 billion Br, significantly lower than Enat's 4.1 billion Br and higher than Berhan Bank's 1.6 billion Br, suggesting that Addis International Bank's liquidity position falls in between.

Despite the setbacks on profitability and EPS fronts, Addis Bank's total assets grew by 16.8pc to 12.6 billion Br, with loans and advances totalling 7.47 billion Br. This demonstrated a significant effort to mobilise deposits, which grew by 16.5pc to 9.03 billion Br. However, the growth rate in assets, loan advances, and deposits was lower than the previous year, revealing the Bank's struggles in a rapidly expanding financial sector.

The Bank's liquidity position has become another area of concern, with declined cash and bank balances revealing a tighter financial situation. The ratio fell from 20.6pc to 17.1pc, indicating a decrease in the Bank's liquidity position relative to its total assets. Despite this, Abdulmenan commended Addis Bank for maintaining a reasonable level of liquidity under the circumstances.

Tamiru Tadesse, a shareholder, echoed this view, praising the Bank's executives for their liquidity management but suggested increasing paid-up capital through listing on the future capital market. He also believes considering a potential merger could be another option to boost the Bank's capital base and propel its growth. As Addis Bank struggles with meeting the regulatory minimum threshold of five billion Birr by 2026, Hailu disclosed plans to boost share sales, reflecting a strategic push to strengthen the Bank's capital base amidst economic upheaval. Shareholders have raised paid-up capital by 27.1pc to 1.83 billion Br, with 3.2 billion Br in shortfall.

Addis International Bank was incorporated by pooling 109.4 million Br in equity from 5,309 shareholders, contributing to its initial capitalisation.

The diverse shareholder base reflects a broad community involvement in the formation and ownership of the Bank, with a sense of local ownership and support for its operations. The substantial increase in capital, alongside a significant decline in profit after tax, resulted in a notable decrease in share earnings. Despite this decline, Addis achieved a capital adequacy ratio (CAR) of 29.9pc, indicating that it is a highly capitalised bank.

"The management should use its capital efficiently to improve shareholders' returns," said Abdulmenan.

Addis Bank's story is a microcosm of the broader trends in the banking industry, where a blend of strategic expansion, aggressive lending, and customer service focus has defined the industry's competitiveness.

The industry's dynamics, with commercial banks holding a 50.5pc (but not overwhelming) share of 1.9 billion Br in deposits and assets, set the stage for intense competition among first—and second-generation private banks. These banks have taken a more aggressive position, disbursing loans and advances to 857 billion Br, representing 70.5pc of the industry's total. While Addis Bank may not have the sprawling branch network or the voluminous customer base of first and second-generation private banks, which dominate the landscape with over 55pc of the total customer base and 71pc of the branches, it appeared to have carved a niche that speaks to effective management and strategic foresight.

Smaller in scale compared to giants like Awash, Abyssinia, and Dashen banks, Addis Bank has demonstrated an operational foundation and efficiency that belies its size. However, what sets it apart is not the size of its ledger but the quality of its performance metrics. With a return on equity (RoE) of 9.4pc and a return on assets (RoA) of 1.9pc, Addis Bank illustrated a prowess in leveraging its equity and assets to generate profits that many larger banks could envy●

Awash Bank Propels to New Heights Despite Economic Headwinds

Awash International Bank (AIB) has continued to consolidate its position as a formidable force, setting a new benchmark for its peers in the banking industry. Its performance cements Awash Bank's position at the pinnacle of the financial sector. Over the past few years, the Bank has not only maintained but significantly enhanced its growth path, defying domestic adversities.

With a tremendous increase of 30.9pc in net profits, Awash Bank's earnings soared to an impressive 6.99 billion Br for the fiscal year 2022/23. The growth outshined competitors such as Dashen, Hibret, and Abyssina, which reported net profits of 3.56 billion Br, 2.29 billion Br, and 3.87 billion Br, respectively.

The Bank's President, Tsehaye Shiferaw, attributed this to the infusion of fresh capital, which saw its paid-up capital soar by 42.4pc to 14.65 billion Br, a figure nearly triple the regulatory minimum set by the National Bank of Ethiopia (NBE) for 2026. Such financial manoeuvring not only fortified Awash's capital base but also seemingly reassured its shareholders about the Bank's growth potential, according to Abdulmenan Mohammed (PhD), a London-based financial analyst.

He lauded Awash's profit as "phenomenal," a sentiment echoed in the modest yet significant rise in Earnings Per Share (EPS) by seven Birr to 577 Br. The Bank directors and executives have pleased their shareholders by posting EPS of 57pc, one of the highest among the private banks but at par with the Bank of Abyssinia, while Birhan Bank reported the lowest at 15.6pc.

"Shareholders have every reason to be delighted with the Bank's performance," he said, acknowledging the strategic moves that have led to these outcomes.

The Bank's revenue sources have been diverse, contributing to its robust bottom line. Interest income and fees, as well as commissions, played a significant role. Interest on loans, advances, central bank bonds, and other deposits surged by 54.9pc to Br 21.93 billion Br, while fees and commissions increased by 13.1pc to 5.61 billion Br, reflecting on the Bank's operational efficiency and its executives' ability to capitalise on market opportunities and diversify income streams, according to industry analysts.

Gure Kumssa, chairperson and Tsehay Shiferaw, president of Awash Bank during the annual general assembly.

Awash Bank led the pack among its peers, recording a 25.6pc increase in loan disbursement to 159.37 billion Br, more than double the previous year's average and the highest among seven of its closest competitors. However, the Bank's journey has not been devoid of challenges.

Gure Kumsa, the Board's chairman, told shareholders about several obstacles at a recent shareholders' meeting.

The key challenges the Bank confronted were global supply-side issues, a rise in food prices, domestic conflicts, and drought. He brought to their attention a brewing tax dispute with the Ministry of Revenues over retrospective profit tax claims on dividends previously used to pay up subscribed capital. The litigation with federal tax authorities poses a potential risk to the Bank's financial stability.

"Billions are being asked," Gure disclosed to shareholders.

Awash Bank has significantly reduced its provisions for loan impairments, underscoring the strength of its loan recovery efforts. The Bank's provision for impairments plummeted by 71.7pc to 242.97 million Br, a figure that notably undercut the average set by its eight peers and was lower compared to Bank of Abyssinia's 960 million Br and Dashen Bank's 497.6 million Br. However, it was slightly above Hibret Bank's 103 million Br set aside for provisions.

Industry observers, including Abdulmenan, have praised Awash Bank's strategic handling of non-performing loans (NPLs). The Bank's NPL ratio, which has dipped below one percent, starkly contrasted with the international standard of five percent, indicating a robust credit evaluation work and effective loan recovery efforts.

"The reduction in provision for impairment of loans and other assets is praiseworthy," Abdulmenan told *Fortune*.

The financial feat is particularly commendable, given the broader challenges in the banking industry.

"This is a significant achievement," Abdulmenan said. "It demonstrated the Bank's stringent credit evaluation processes and effective loan recovery mechanisms."

Samuel Kenu, an accountant at Awash's Gofa Branch, shared this view on the Bank's performance. While he applauded the Bank's overall financial success, he showed reservations over its lag in the digital finance landscape. He believes the Bank needs to focus more on this area to maintain its competitive edge.

"We're one of the pioneers in digital finance," he told *Fortune*. "But we're lagging in promoting it."

Shareholders, such as retired businessman Nemera Weyesa, who owns 908 shares following a series of recapitalisations, have expressed mixed sentiments. While delighted with the EPS growth, Nemera raised concerns over the selection process of directors serving on the board, calling for more stringent criteria.

According to the Bank President for the past 14 years, Awash Bank is committed to leveraging every business opportunity in the industry.

Incorporated in 1994, with 486 founding shareholders raising 24.6 million Br in equity, Awash Bank has evolved significantly. Its balance sheet expansion is a reflection of its overall growth strategy. It is the most capitalised private bank, with total assets amounting to 224 billion Br, having a well-managed debt profile, with total liabilities at 196 billion Br. Its cash and bank balances increased by 8.8pc to 34.88 billion Br, while its liquid to total assets ratio dropped by 1.9pc to 15.6pc, revealing a tight liquidity margin, a delicate balance between asset growth and liquidity management.

Awash Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
224.02b Br	196.0b Br	14.6b Br	28.7b Br	19.05b Br	6.99b Br	577 Br
22.3pc ↑	20.9pc ↑	42.4pc ↑	39.8pc ↑	44pc ↑	30.9pc ↑	1.2pc ↑

Illustrated by: *Fortune*

Source: Awash Bank Annual Report 2022/23

The Bank's capital and non-distributable reserves also saw a significant increase of 29.6pc to 22.12 billion Br, and its capital adequacy ratio (CAR) improved by 1.8pc to 14.3pc.

The Bank's performance metrics, such as a return-on-equity (ROE) of 25.8pc, the highest among 15 private commercial banks, and a return-on-asset (ROA) of 2.9pc, above their average, showed its executives' efficient use of resources and competitive position in the industry, according to the industry analyst.

In the domain of foreign exchange managment, Awash Bank experienced mixed results. While its gains on foreign exchange dealings plummeted by 33.2pc to 672.94 million Br, its total foreign currency generated climbed by 17pc to 1.46 billion dollars.

"We're still the highest foreign currency earners," Tsehay told *Fortune*.

Awash Bank is, however, experiencing substantial financial strain due to its ambitious expansion strategy. It has undergone a 60pc increase in wage expenses, which have soared to nine billion Birr. The rise in costs has even surpassed the expenses incurred through interest on deposits by a significant margin of three billion Birr.

In a year marked by aggressive growth, Awash Bank has seen its deposits swell to 182.17 billion Br, marking a 23.3pc increase. However, this has had a consequential impact on the Bank's loan-to-deposit ratio, indicating a shift in its liquidity dynamics.

Abdulmenan noted a peculiar trend of a surging liquidity value, which has diminished in relative terms. This, he suggested, points to the Bank operating with tight liquidity margins, raising concerns about potential liquidity challenges in the face of continued expansion.

"Its further growth will cause a liquidity problem," he told *Fortune*.

The rapid expansion has affected liquidity and led to a sharp 60pc increase in operating expenses, which stood at 3.65 billion Br. The Bank's executives attributed this increase to the decision to expand its branch network with 150 new locations and the addition of 4,300 staff members.

Abdulmenan has voiced a word of caution to the Bank's management. He stressed the importance of maintaining a balance between growth ambitions and effective cost management, hinting at the risks of unchecked expenditure in pursuit of expansion.

Tsehay, the president, acknowledges the challenges posed by the rising expenses, attributing them in part to the broader economic context marked by inflation. Despite these headwinds, he remained committed to the Bank's strategic vision.

"We're digging deeper to maintain our leadership," he said

Berhan Bank's Bittersweet Balance

Berhan Bank is steering an increasingly competitive banking landscape marked by modest profitability despite a solid asset size and an equity base. Its fiscal year 2022/23 performance revealed only a slight increase in net profits and a marginal growth in earnings per share (EPS), illustrating the executives' difficulties in income generation and cost management.

The Bank's returns on equity (4.46 billion Br) and assets (33 billion Br) fall short of market leaders, revealing room for better asset utilisation and profitability. However, its asset base is nearly double that of Enat Bank's 17.21 billion Br, significantly higher than Debub Global Bank's 14.09 billion Br and Addis International Bank's 10.79 billion Br. Such a disparity in asset size indicates a potential variance in market reach and operational scale among these banks of similar tiers.

However, a different picture emerges when the lens is shifted to Return on Equity (ROE) and Return on Assets (ROA). Berhan Bank's ROE stands at 11.8pc, and its ROA at 1.6pc, figures while respectable, are eclipsed by its peers. Enat Bank posted a slightly higher ROE of 12.8pc and an ROA of 1.9pc, showing a more efficient utilisation of shareholder equity and asset management. Debub Global Bank's ROE and ROA, at 13.8pc and 2.1pc, respectively, further extend this trend.

However, the most striking contrast would be presented by Addis International Bank, which posts an ROE of 19.2pc and an ROA of 3.9pc despite its smaller asset size, significantly higher than the other banks.

With a capital exceeding three billion Birr, Berhan Bank is a player with the prospect for growth. However, its EPS of 15.6pc pales compared to industry goliaths such as Awash and Abyssinia banks. The disparity in EPS, alongside the ROE and ROA figures, places Berhan in a moderate performance tier.

Gumachew Kussie, Chairperson

Over the past fiscal year, the Bank's tepid performance has sparked concern among shareholders, leading to animated discussions at the annual general assembly held three weeks ago at the Millenium Hall on Africa Avenue (Bole Road). Berhan Bank reported a modest growth in net profits by 6.3pc to 508.63 million Br, a sharp contrast to the 146pc growth rate from the preceding year. This growth is significantly lower than its peers, with Zemen Bank leading at 1.8 billion Br, followed by Abay Bank at 1.5 billion Br and Bunna Bank at 949 million Br.

With shareholder discontent rising and the looming capital threshold requirement of the central bank, Berhan Bank's future hinges on strategic improvements in deposit mobilisation, loan disbursement, and operational efficiency.

Incorporated in 2009 with 97 million Br paid-up capital raised from 12,000 shareholders, Berhan Bank has grown significantly. However, it still falls short of the central bank's capital threshold requirement by 1.65 billion Br, with a deadline looming in June 2026.

Dividends are even lower than the deposit interest rate.

Debebe Mamo
Shareholder

Adding to the concern was the marginal growth in share earnings, which increased by only 0.26 Br to 156.12 Br. This led to significant shareholder unrest, prompting the Board Chairman, Gumachew Kussie, to apologise. His attempt to slake shareholders' worries by unveiling an architectural design for the Bank's new headquarters, planned to lie on 5,400Sqm in the financial district, seemed to have little impact, as the sluggish growth in EPS remained a critical issue.

Berhan Bank's Acting President, Solomon Assefa, attributed the modest performance partly to the need for capital injection and regulatory risk reserves.

"Regulatory risk reserves also played a role," he told *Fortune*.

Financial statement analyst Abdulmenan Mohammed (PhD) pointed to the surge in financial intermediary income as a primary reason for the modest growth in net profits.

There was a notable increase in Berhan's assets portfolio, with a 36.3pc rise to 45.05 billion Br. The Bank's investments in government bills and bonds amounted to 3.8 billion Br, representing 8.5pc of its assets. Despite this, Berhan Bank trails behind Abay and Bunna in assets.

Berhan Bank reported non-distributable reserves of 8.33 billion Br and a capital adequacy ratio (CAR) of 15.4pc, almost twice the regulatory threshold. It generated 4.39 billion Br in income from interest on loans, advances, and central bank bonds, marking a 38pc growth. However, its net fees and commissions revenues dropped by 20.3pc to 435.17 million Br, and other operating income halved to 228.17 million Br. These factors, combined with increased operational expenses, undermined the substantial growth of financial intermediation income.

Berhan Bank's interest expenses increased by 28.5pc to 1.6 billion Br, and wages and benefits rose by 32.8pc to 1.62 billion Br. Its total operating expenses for the year were 4.5 billion Br, ranking third among its peers.

According to Solomon, the Bank's inability to earn income from fees remains a significant concern, particularly noting the lull in processing new letters of credit due to backlogs.

"We stopped for half of the year," he told *Fortune*.

The Bank disbursed 27.35 billion Br in loans and advances, a 30.6pc increase from the previous year. However, Berhan incurred more expenses throughout the year than its earnings, raising concerns about its cost management strategies.

Some of the 16,781 shareholders expressed concerns over alleged mismanagement and accountability, citing a 32 million Br donation made to public projects like Ge'beta Le'hager and sudden management reshuffles.

Debebe Mamo, a shareholder who bought shares six years ago worth 118,000 Br, was disappointed over declining dividends and the Bank's performance, questioning the leadership's strategies in mobilising deposits and disbursing loans.

"The dividends are even lower than the deposit interest rate," he told *Fortune*.

A branch manager working for the bank since 2019, speaking on the condition of anonymity, attributed some of the Bank's issues to management failure. He believes in the need for more extensive management reshuffles and credited the Bank's strategy in retaining corporate customers and allocating foreign currency under the former president, Girum Tsegaye.

Berhan Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
45b Br	40.01b Br	3.4b Br	5.1b Br	4.5b Br	508.6m Br	156 Br
36.2pc ↑	39.9pc ↑	6.1pc ↑	22.1pc ↑	25pc ↑	6.3pc ↑	0.16pc ↑

Illustrated by: *Fortune*

Source: Berhan Bank Annual Report 2022/23

"His only mistake was not replacing the entire management," he said.

The manager also noted that conflict in recent years had impacted the performance of his branch, with only 70pc of targets met due to business slowdown.

However, Berhan Bank's deposit mobilisation grew by 29.8pc to 33.78 billion Br, and its loan-to-deposit ratio increased slightly to 81pc. The ratio of cash and bank balances to total assets has also declined, a trend that has persisted over the past few years. Its provision for impairment of loans and other assets dropped by 7.7pc to 311.15 million Br, a figure still considered substantial.

Abdulmenan recommended that the management reduce the provision for asset impairment to an acceptable level.

"It has reached a reasonable limit," Abudulmenan cautioned.

With a background working for the central bank, the now defunct Construction & Business Bank (CBB) and Nib Bank, Solomon faces the challenge of steering Berhan Bank through these turbulent times. The 51-year-old veteran banker who graduated in economics from Addis Abeba University acknowledged the need to focus on resource mobilisation and credit management to maintain healthy liquidity levels.

The banking industry is highly competitive, characterised by a mix of rapidly growing players and established banks. Banks like Berhan, while holding significant market share, do not lead the industry. Their asset quality, liquidity, and profitability are crucial for success, but profitability ratios, capital adequacy, and income balance with expenses reveal their moderate position.

Berhan Bank, along with Enat, Global, and Addis International banks, might be targeting specific market niches or customer segments underserved by larger banks. The regulatory environment and economic conditions, including changes in banking regulations, significantly influence these banks' performance. Their place in the industry reveals a sector where size does not always correlate with profitability or efficiency.

While Berhan Bank leads in assets, it lags slightly behind in profitability metrics. This points to potential areas for strategic refinement, particularly in enhancing asset utilisation and equity returns. Smaller banks like Addis International demonstrated that a focused, efficient approach can yield high returns, despite a smaller operational scale ●

Bunna Bank Jogs Past Some, Stumbling Over Shareholder Returns

In its latest fiscal year performance, Bunna Bank joined a hoard of competitors in posting a rise in net profits, positioning it as a noteworthy contender within the banking industry. However, its financial performance placed it in a peculiar middle-tier position — above Berhan Bank but trailing behind competitors such as Abay and Oromia banks.

Despite the uptick in profits, shareholders experienced a decline in Earnings Per Share (EPS), with a drop to 236.44 Br from the previous year but above Berhan Bank (156 Br) while it fell short of Oromia Bank (324 Br) and Abay Bank (360 Br). A critical indicator of profitability on a per-share basis, Bunna's 23.6pc in EPS was the second largest rate over the past decade, although lower than the average of 38.4pc across 15 private banks posted in 2021/22, revealing room for growth in maximising shareholders' value.

The Bank's executives attributed the decrease to strategic capital infusions to reinforce its resource base amid rising operational costs. While the move is believed to help Bunna consolidate its capital structure, analysts caution operational efficiency and cost management strategies in a period marked by industry repositioning.

The Bank ended its operations with a 6.6pc climb in net profits to 949.21 million Br, almost double the profit Berhan Bank reported but lagging behind Abay's 1.55 billion Br and Oromia's 1.58 billion Br. Although it appears to be dwarfed by Awash Bank's 6.9 billion Br profit (the industry's largest for private banks), Bunna Bank's performance is noteworthy, defying its smaller scale and contributing to the industry's aggregated profit of 22.2 billion Br in the latest operational year.

Under the stewardship of Mulugeta Alemayehu, its president, Bunna Bank's strategic shift towards acquiring technology and expanding its footprint was notable.

With an accounting and business administration background from Addis Abeba University, Mulugeta began his career at the state-owned Commercial Bank of Ethiopia (CBE) and helmed the presidency at Bunna Bank in 2018. Under his watch, Bunna Bank has seen notable

Bunna Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
46.4b Br	39.9b Br	4.28b Br	6.7b Br	5.3b Br	949.21m Br	236 Br
36pc ↑	37.3pc ↑	29.3pc ↑	47.6pc ↑	59.3pc ↑	6.6pc ↑	21.5pc ↓

Illustrated by: *Fortune* Source: Bunna Bank Annual Report 2022/23

increases in its interest income, which surged by 53.4pc to 5.63 billion Br.

A diverse portfolio of loans, advances, treasury bonds, and other financial instruments drove this growth. The total loans, advances, and interest-free financing went up 35.6pc to 34.17 billion Br. Despite the upticks, Bunna's loan portfolio only exceeded Berhan's 27.35 billion Br, markedly less than Oromia's 41.56 billion Br and a tad bit lower than Abay's 36.47 billion Br.

While Bunna Bank's provision for impairment of loans and other assets increased by 29.4pc to 160.2 million Br, the total deposit reached 34.35 billion Br, rising by 34pc.

The loan-to-deposit ratio of Bunna Bank increased to 99.5pc from 93.4pc. While generating interest income, analysts warned that a high loan-to-deposit ratio could pressure the Bank's liquidity position, recalling the borrowing of 511.11 million Br from the central bank.

Mulugeta concured.

"We're also planning to collect disbursed loans aggressively," he said.

Following the same trend, the Bank's income from fees and commissions rose by 14.3pc to 811.98 million Br, complemented by a 35.5pc increase in gains from foreign exchange dealings from last year's 82 million Br, a rare accomplishment in an industry besieged by forex crunches.

"The management should be appreciated," said Abdulmenan Mohammed (PhD), a London-based financial analyst.

These achievements, however, are set against a backdrop of broader industry-wide impediments, including the disparity between official and parallel market rates, which have impacted foreign exchange earnings.

Bunna's Board Chairman, Alemayehu Sewagen, raised these problems during the shareholders' annual general assembly in December at the Millennium Hall on Africa Avenue (Bole Road). He pointed to the adverse effects on the Bank's performance, emphasising the need for strategic adjustments to overcome limitations.

A seasoned banker with two decades of experience, Mulugeta's management is characterised by an ambitious vision, steering away from conventional banking practices of deposit-centred towards a more diversified approach. This includes a significant expansion of the bank's branch network, with 122 new branches added, totalling 465. He disclosed his desire to balance expansion with cost control as a crucial move forward, integrating technology and staff efficiency.

We're also planning to collect disbursed loans aggressively.

Ermias Andargie

President

While these expansions contributed to the Bank's increased footprint, they also increased operational costs. A significant portion of these expenses was allocated to personnel, with costs surging to over two billion Birr, surpassing that of several competitors but falling slightly below Oromia Bank's 2.32 billion Br.

Abdulmenan voiced concerns over this trend, urging the Bank's management to closely check its expenditure framework to ensure sustainability and profitability in the long run.

Mulugeta acknowledged the significant growth in costs but remained upbeat about the Bank's future, alluding to a "holistic transformation" in his operational strategy. The transformation is evident in the Bank's financial indicators, with a notable increase in cash and bank balances, albeit accompanied by a slight decline in the ratio to total assets. According to Abdulmenan, the shift suggests a strategic reallocation of resources, with savings being channelled into investments to boost returns, requiring careful management to avoid liquidity issues.

"Management needs to be vigilant to avoid liquidity issues," Abdulmenan said.

According to Mulgeta, the savings were used for investments to boost returns, decreasing cash and bank balances.

Bunna's cash and bank balances increased by 35.6pc to 4.46 billion Br in the year while its ratio to total assets dropped by 0.4pc to 9.6pc, indicating a rise in absolute terms and a relative decline. These balances-to-assets ratios are less than Oromia's 16pc, Abay's 15pc, and a percentage point higher than Berhan's 8.6pc. In aggregate, they were less than half of Oromia's 10.99 billion Br and nearly half of Abay's 8.25 billion Br, while slightly higher than Berhan's 3.73 billion Br.

Bunna Bank's strategic efforts also extend to its capital structure, with its paid-up capital growing by 29.3pc to 4.28 billion Br. However, this growth was accompanied by a reduced capital adequacy ratio from 18.9pc to 15.7pc.

Incorporated with 175 million Br paid-up capital 14 years ago, Bunna Bank was short of 1.72 billion Br to meet the central bank's minimum paid-up capital requirement. The Bank's capital amount accounts for approximately 3.67pc of the aggregate capital for 29 private banks, while its total equity and assets contributions stood at 3.28pc and 2.69pc, respectively, of the industry.

Although reflective of a smaller scale, these figures show Bunna Bank's substantial place in the banking ecosystem. Its executives' measures, including aggressive loan collection strategies and investment in digital financial products, aim to fortify the Bank's competitive position in total assets, equity, and profitability.

Alemayehu Sewagegen, Chairperson

While modest compared to giants like Awash, Dashen and Abyssinia banks, shareholders recognise the Bank's achievements and potential.

Tesfaye Fente, one of the 8,000 founding shareholders, praised Bunna Bank for its accessibility, range of services, financial stability, and customer service. With shares worth nine million Birr with Bunna Bank and stakes in 12 other banks, Tesfaye observed several new entrants into the industry, followed by staff migration lured by the promise of better benefits.

"It's an industry-wide problem," he told *Fortune*.

However, Bunna Bank's workforce grew by 1,168 during the year, bringing the total number to 4,100.

Yohannes Limeneh has been a deputy manager at the Qera Branch of Bunna Bank for several years. He saw how business activities in the capital's cattle market nearby slowed down due to conflict-related issues, which impacted his branch's performance.

"Our branch is directly affected by the livestock market's declined activities," he told *Fortune*.

Yohannes believes that a shift towards innovative digital financial products would best leverage the skill sets of the Bank's energetic employees.

Bunna Bank's balance sheet size is at the core of its financial position, encapsulating a total asset value of 46.4 billion Br, representing a growth of 36pc from the previous year. Compared with industry giants such as Awash Bank, which boasts a staggering total asset figure of 224 billion Br, Bunna Bank's market footprint appears smaller. The disparity extends to total equity, where Bunna Bank's 6.5 billion Br contrasted with Awash Bank's 27.9 billion Br, illustrating the challenges inherent in scaling operations within an industry dominated by more sizeable competitors.

Bunna Bank demonstrated a competent performance among its peers when measured in efficiently utilising its assets to generate profits, as shown by its returns on assets and equity. These are crucial barometers for assessing how effectively a bank leverages its equity and assets to generate profits.

Bunna Bank's return on equity (RoE) was at 17.8pc, moderate compared to banks such as Awash Bank's 25.8pc (the highest in the industry) and Wegagen Bank's 9.6pc. Its return on asset (ROA) was 2.61pc, half the size of Zemen Bank's leading rate and Wegagen Bank's 1.3pc.

Bunna Bank used its assets to generate earnings relatively effectively, outperforming many of its peers ●

SAILING THE PARADOX THROUGH ENGAGEMENT

Addis Fortune Finance (AF): Could you elaborate on the apparent disconnect between Ethiopia's robust financial sector and its slowing real economy? With the economy slowing down, yet banks are recovering impressively high, how is this dichotomy explained?

Aklilu Wubet (PhD): This is indeed intriguing. The financial sector, particularly banking, starkly contrasts the broader economic landscape. Despite the overall economic slowdown, it has shown resilience and growth, especially in deposits, loans, and employment generation. This divergence is rooted in several key factors.

Private banks have shown remarkable resilience in loan recovery, boasting a 57.3pc share in loan collection. This success can be attributed to strict regulatory measures by the central bank to keep non-performing loans (NPL) low. Central bank policies have played a significant role by stimulating growth in the financial sector through favourable lending conditions and low-interest rates, effectively boosting the sector. In contrast, the real economy, encompassing sectors like agriculture and transport, has been battered by external shocks such as the COVID-19 pandemic, inflation, and ongoing conflicts. The private financial sector's recent surge, surpassing public sector banks in deposits and loans, indicates a shift towards efficiency and modern banking practices. It, however, has not been mirrored in the real economy, which still struggles with legacy issues and slower adaptation to contemporary economic dynamics.

While the financial sector appears to be thriving, it is not immune to the broader economic challenges. Issues like liquidity and loan losses persist, albeit at a lower intensity compared to the struggles faced by the real economy sectors. This imbalance suggests that while the financial sector has mechanisms to cushion economic shocks, the real economy lacks similar resilience, hence the observed disconnect.

AF: Despite a general economic slowdown, the banking sector's recovery has been notable. How has this been achieved?

The financial sector's resilience during an economic slowdown is attributable to several strategic factors. The sector's robustness is partly due to the stringent regulatory framework enforced by the central bank, especially regarding loan recovery and maintaining low non-performing loans (NPLs). This regulatory environment has compelled banks to adopt prudent lending practices and rigorous loan recovery mechanisms, contributing to their overall stability and growth.

Another factor is the sector's loan composition. The focus on relatively resilient sectors such as import-export has insulated banks from some economic downturns. These sectors have continued to perform relatively well, ensuring a steady flow of loan repayments and sustaining the banks' financial health. The banking industry has benefited from the diversified nature of its loan portfolio. This diversification, including consumer loans and import-export financing, has provided a buffer against sector-specific economic challenges. Consumer loans, often backed by salaries, offer a stable repayment stream, while the dynamism of the import-export sector helps maintain loan performance.

AF: What defines the Ethiopian financial sector, and how does it contribute to its growth?

A mix of traditional and modern elements characterises the financial sector, which plays an indispensable role in the country's economic fabric yet faces unique challenges and opportunities. The sector is heavily regulated, reflecting a cautious approach by the authorities towards financial management. The regulations have ensured stability but also limit the sector's agility in responding to market dynamics. Despite increasing competition, the sector remains somewhat conservative, primarily focusing on traditional banking methods over innovative financial solutions.

Adopting technologies lags behind global standards. While there is an evident appetite for leveraging new technologies, actual implementation is slow. The sluggishness in embracing digital banking and fintech solutions restricts the sector's potential to catalyse broader economic growth. Another defining aspect is the sector's dichotomy of public and private ownership. The public sector, historically dominant, is gradually ceding ground to more dynamic and efficient private entities. The shift signifies a maturing market where private financial institutions drive innovation and customer-centric approaches, contributing to the sector's overall growth and, by extension, the economy.

AF: What limitations does the banking sector face in enhancing deposit mobilisation?

Despite significant progress, banking confronts substantial challenges in deposit mobilisation, especially concerning its contribution to GDP. The primary issue is the banking industry's limited reach, particularly in rural areas. While the number of branches has increased, the vast majority of the population in rural regions remains underserved. This geographic limitation hinders the sector's ability to attract deposits from a significant portion of the population, thus affecting its contribution to GDP.

Cultural factors also play a crucial role. The culture of banking and saving is not as entrenched as in other regions. This lack of a strong savings culture, coupled with limited financial literacy, means that many potential depositors remain outside the banking system. Efforts to educate and encourage the public about the benefits of banking are essential but have yet to achieve the desired impact. The banking industry must innovate and adapt to become more appealing to potential customers. ▸▸

This involves not just expanding physical access but also embracing digital banking solutions to make banking more accessible and convenient. However, the industry's slow pace in adopting such innovations further exacerbates the challenge of deposit mobilisation.

AF: How do cultural aspects influence banking in your market?

Cultural factors significantly impact banking practices, influencing how people interact with financial institutions. There is a noticeable lack of a widespread savings culture, especially when compared to regions like Asia. This cultural gap implies that many Ethiopians do not view banking as an essential institution for their financial well-being. Changing this perception is a complex task that involves not only educating the public about the benefits of banking but also ensuring that banking services are relevant and accessible to their daily lives.

The banking industry has not been as proactive as it could be in reaching out to potential customers. This includes geographical reach and how banking products are presented to the public. Banks need to step up efforts in financial inclusion, using traditional methods and modern technology to reach a wider audience. The banking sector must work to build trust with the public. In many parts of Ethiopia, there is still a significant degree of scepticism towards banks, partly due to past experiences and partly due to a lack of understanding of how modern banking can benefit individuals and communities. Building this trust requires consistent, transparent, and customer-focused banking practices.

AF: What trends have you observed in the banking industry over the years?

Several key trends have emerged in the Ethiopian banking industry, reflecting domestic and global economic changes. One significant trend is the industry's urban-centric focus. Most banking activities, including loan disbursement and resource mobilisation, are concentrated in urban areas. This urban focus leaves rural areas relatively underserved, creating a disparity in financial services availability across the country.

Another trend is the concentration of loans among a few large borrowers. This concentration poses a risk, as it creates a dependency on a small group of clients. Lately, however, there has been a shift with private banks increasingly outperforming state-owned banks in terms of loan shares. This trend signifies the private banking sector's growing efficiency and market responsiveness. There is a growing emphasis on digital banking and fintech solutions. Although adoption has been slower than in some other countries, there is a clear trend towards integrating more technology into banking operations. This trend is driven by customer demand for convenience and efficiency, as well as the need for banks to remain competitive in a rapidly evolving digital landscape.

AF: How do you plan to sustain growth and maintain momentum in your operations?

Sustaining growth and maintaining momentum in the private banking sector require various approaches. There is an increasing need to align banking services with the evolving needs of society. This involves not only offering traditional banking products but also innovating to provide services that meet the changing demands of customers, especially in a digital age. Emphasising financial education and digital literacy among customers is crucial for cultivating a deeper understanding and reliance on banking services.

Technological advancement is vital. The sector must invest in and adopt cutting-edge digital solutions to improve service delivery and operational efficiency. This includes mobile banking, online services, and fintech collaborations, which can expand the reach and appeal of banking services, especially to younger, tech-savvy demographics. The industry must build and maintain customer trust by having transparent operations, competitive product offerings, and excellent customer service. Building a loyal customer base is essential for long-term growth and stability in the banking sector.

AF: The banking industry's mobilisation of resources is notably low compared to the GDP. Why is the sector struggling to reach higher levels of deposit mobilisation?

The industry indeed faces significant challenges in mobilising resources. The core issue lies in reaching a broader customer base. For instance, the banking sector once had a ratio of one branch for 200,000 people, which has dramatically reduced to one branch for 9,000. However, even with this expansion, our mobilisation in relation to GDP remains low, revealing a failure in attracting deposits and stimulating depositor interest. We lag in financial inclusion, technology adoption, and outreach, particularly in rural areas where a significant portion of the population resides.

AF: How do you address the mismatch between the amount of loans approved and the slower level of disbursements?

Addressing the gap between loan approvals and disbursements is a complex issue that requires a nuanced approach. The demand for loans is high, but several factors limit the capacity of banks to disburse these loans. One key factor is the high loan-to-deposit ratio, particularly in private banks, which limits their lending capacity. This ratio reflects the banks' ability to lend money based on their deposits, and when it is high, it indicates that banks are nearing their lending limits.

AF: How significant are accessibility factors in shaping the banking industry?

Accessibility is crucial, but there is also a cultural aspect at play. Compared to Asian countries, where saving culture is more ingrained, Ethiopia has a long way to go. The concept of banking is still alien to many potential depositors. Our focus must shift towards changing this cultural perspective on savings. Observing trends over the years, it is evident that banking remains predominantly urban-centric and dominated by a limited number of borrowers.

AF: Private banks are now outperforming state-owned banks in loan shares. What factors contribute to this shift?

The private sector's ascendancy in the banking landscape is a multifaceted phenomenon. The number of private banks and their branches, including those in rural areas, has surpassed state-owned banks. This expansion has bolstered public confidence in private banks. There is a visible shift in the economic landscape, too, with the private sector's share increasing as government involvement diminishes. These factors collectively enhance the private banks' ability to outperform their state-owned counterparts.

AF: Given the critical role of risk management in banking, especially in Ethiopia's unique challenges, what strategies are being employed?

Risk management is paramount, particularly in a volatile environment like Ethiopia. Our approach involves diversifying resource mobilisation to avoid concentration risks geographically or sectorally. We are also focusing on leveraging technology for better service delivery. Moreover, managing foreign exchange exposure is a crucial area of focus. Ensuring liquidity and meeting foreign and domestic commitments are among our top priorities.

AF: In addressing the challenges of deposit mobilisation and overcoming public perception issues, what unique strategies have been implemented at Wegagen Bank?

Tackling the stigma associated with our bank has been a significant challenge. We have embarked on an engagement strategy to rebuild trust among staff, customers, and shareholders. Celebrating our 25th anniversary was part of this effort to rebrand and reposition ourselves in the market. We have also restructured our management organisation to be more responsive and customer-centric. These efforts are gradually bearing fruit, as evidenced by a growing customer base and improved public perception.

AF: Wegagen Bank has confronted an array of challenges in recent years but demonstrated remarkable resilience despite conflicts and negative media coverage. What strategies have the Bank's leadership implemented to overcome these adverse impacts?

Wegagen Bank has overcome significant challenges, notably due to conflicts in the northern region where a third of its branches were closed for over two years. This period also saw the Bank wrestling with widespread and unfounded negative media coverage, which adversely affected its operations. In response, the Bank implemented a comprehensive recovery strategy, emphasising collaboration among its Board, management, employees, and other key stakeholders. This approach included numerous engagements with relevant parties and targeted promotional efforts aimed at countering the negative media narratives and restoring its reputation. These initiatives proved successful, leading to renewed confidence from the public and marking a significant turnaround in the Bank's operational performance. The resilience and collective action of the Bank's leadership and staff played a crucial role in steering the institution back onto a path of growth, demonstrating their capacity to navigate through and emerge stronger from periods of adversity.

AF: With the National Bank of Ethiopia shifting its focus to price stability and inflation control, how do you perceive these changes impacting the banking industry?

The National Bank's focus on price stability and inflation control is a necessary strategic shift. This approach aligns with the broader goals of macroeconomic stability. However, banks must have the flexibility to challenge and contribute to policy-making processes. We appreciate short-term measures like caps on lending, but I would like to emphasise the need to balance regulatory oversight and operational freedom for banks.

There should also be a policy in the foreign exchange regime that encourages exporters and tam on the import of luxury goods — an exchange market regime that fits the macroeconomic environment.

AF: With the advent of competition from international banks, do you foresee consolidation in the industry through mergers as inevitable?

The challenges posed by foreign banks equipped with advanced technology and substantial resources demand a robust response from domestic banks. Their entry should be managed with a dual focus: encouraging cooperation and competition. This balance is essential. Cooperation should span various domains, including infrastructure, knowledge sharing, and crisis management, while competition should focus on improving service quality. Despite existing mechanisms, there is a need for a deeper level of collaboration and shared understanding.

It is not merely a question of capital; it is about leadership, management, and a deep understanding of the global economy—the ability to compete hinges on dynamic leadership, which can be hard to find. We must strive to actively seek external knowledge to learn from international banking systems such as those in Europe, Western Africa, and Kenya. However, this kind of global understanding and adaptation is rare, putting enormous pressure on leadership.

The NBE, too, should zoom in its focus on this, going beyond demanding us to allocate a mere two percent of our budget for training. There needs to be a strategic alignment between budgeting and training, emphasising exposure to global banking trends. For example, mobile banking was a novelty 15 years ago. It is a necessity now. The rapid evolution in telecom-based banking technology, as seen in Kenya's adoption of mobile banking for farmers, proves the urgency for adaptation.

Leadership is indispensable. At Wegagen Bank, we recognise a significant gap in this area. We are trying to learn from each other; but, it is not enough.

AF: Is the current environment conducive to both cooperation and competition?

The existing environment is not wholly conducive to the ideal blend of cooperation and competition. For instance, the proliferation of ATMs is not a sign of resourcefulness but rather a lack of collaboration. We could achieve more with shared infrastructure. While initiatives like the Ethio-Switch company for interoperability exist, we need to think beyond that. This adaptation requires a shift in culture and mindset, aligning with global banking norms. In essence, the balance between competition and cooperation is not only desirable but fundamental. It should be reflected in regulatory directives.

AF: Do you view the entry of telecom companies into the financial sector as a threat, and is adaptation essential?

In the short term, telecom companies entering the financial space pose a threat. However, in the long term, banks must adapt, collaborate, and innovate alongside these new players. The banking landscape is evolving rapidly, akin to the analogy of a frog in boiling water, not realising the danger until it is too late. We need to be proactive, not reactive.

AF: Looking ahead, what are the main concerns and strategies for the banking industry in the face of potential competition from international banks and the advent of financial technology?

The anticipated entry of international banks presents both challenges and opportunities. It shows the need for robust leadership and management skills within local banks. We need to enhance our capabilities in understanding global banking trends and technological advancements. The rise of fintech is a game-changer, demanding significant investment in digitalisation and innovation. The potential synergy between traditional banking and emerging technologies like mobile banking cannot be overlooked.

AF: How is your bank addressing corporate social responsibility and sustainability, especially in regions affected by conflict and economic challenges?

Our approach to corporate social responsibility and sustainability is considerable and numerous. We are focusing on the economic rehabilitation of conflict-affected areas by aiding in cultural and business development. Our loan assessment includes considerations for environmental sustainability. We are actively participating in various regional initiatives, aligning our social responsibility efforts with business objectives and a genuine commitment to societal well-being.

Banking Giant Climbs a Financial Everest, Its Books Feel the Gravity

The unveiling of a 48-storey headquarters last year, on Ras Desta Damtew Road, reflects not just a physical manifestation of growth for the state-owned Commercial Bank of Ethiopia (CBE). It epitomised the Bank's ambitious expansion, a footprint of its financial strength.

CBE's journey through the fiscal year 2021/22 is evidence of its robustness in the face of economic adversity. Marked by significant profit growth, asset accumulation, and strategic expansions, its performance reflected CBE's central role in the banking industry. However, the challenges it faces, from managing impairment losses to navigating liquidity constraints and leveraging debt, show the complexities of operating within an evolving economic and regulatory environment.

For the fiscal year 2021/22, the Bank reported a profit of 16.5 billion Br, a commendable 24pc increase from the previous year. The performance, a sign of soundness in a somewhat unsteady economy, underlines its executives' adept manoeuvring through the upheavals that have beset the country's financial sector.

A closer examination of the Bank's financial statement reveals a nuanced story of growth, shadowed by the challenges inherent in aggressive expansion and lending practices.

Interest income, the Bank's lifeblood, swelled by 25.8pc to reach 82.2 billion Br. More striking, however, was the astronomical 140pc surge in non-interest income, amounting to 35.8 billion Br, largely fueled by gains from foreign currency transactions. The remarkable increase reflects CBE's immersion in the foreign exchange market, a crucial component of its revenue stream.

Yet, celebrating these achievements is somewhat muted by the glaring spike in impairment losses on loans and advances, which ballooned by an alarming 8.7 times to 25.7 billion Br. Representing about a third of the Bank's interest income, this casts a shadow over its lending practices and raises questions about the sustainability of its growth model. It also brings to light the considerable loans extended to state-owned enterprises encountering repayment difficulties.

Abie Sano, President

According to the financial statement analyst, Abdulmenan Mohammed (PhD), this requires a thorough investigation of lending practices by the Bank.

"It should be very concerning," he said.

At the helm during this critical period is Abie Sano, who assumed the presidency of the Bank in March 2020. He received his undergraduate studies in accounting from Addis Abeba University (AAU) two decades ago and completed his postgraduate studies in business administration at the University of London, in 2010.

Abie steered the CBE through these turbulent times, where it steered the fine line between revenue growth and the escalation of both interest and non-interest expenses, which rose by 16.8pc and 25.8pc, respectively.

"It's not like we had a major sick loan," said Abie.

However, liquidity remains a critical area of focus. Despite Abie's assurances of a sound liquidity position, analyses reveal a relatively tight liquidity scenario, with cash and cash equivalents representing a modest proportion of total assets and deposits. Contrasted with the Bank's strategy of financing a portion of its loans through other liabilities, it uncovers the complexities of managing liquidity in a rapidly growing bank.

"We're at a good liquidity position," said Abie.

Since its inception in 1942, the CBE has played an indispensable role in the financial sector, expanding its loan and advance portfolio, bonds, and equity holdings by 19.1pc to 990.7 billion Br. Coupled with a 21.1pc increase in deposits to 890.9 billion Br, the performance speaks to the CBE's vigour and strategic positioning in the market. Nonetheless, the slight dip in the loan-to-deposit ratio to 111pc points to its high reliance on leveraging debt for growth, a strategy that, while aggressive, carries inherent risks.

"This is considered very high," said Abdulmenan.

CBE's capital and non-distributable reserves saw a modest increase of 7.7pc to 60 billion Br, reflecting a strategic, albeit cautious, approach to boosting its foundation. This is particularly relevant in a context where much of the Bank's investments in corporate bonds are backed by government guarantees, a factor that plays into Abie's and his team's risk assessment and the Board's capital allocation strategies.

Abie's tenure has also been characterised by a keen awareness of the growing risks posed by Ethiopia's increasing domestic debt. His management approach, balancing the Bank's obligations to the state with the imperative to safeguard its financial stability, mirrors the broader challenges facing Ethiopia's financial sector.

The CBE's Commerce Branch, heralded for its performance, encapsulates the broader story of CBE's success amidst challenges. The Branch focused on attracting the unbanked population, a critical strategic direction for the banking industry at large, aiming to broaden their customer base in the face of competition, the aftereffects of the pandemic, the ongoing insecurity and galloping inflation.

The financial course of the CBE, marked by an upward trend in profitability and strategic asset accumulation, reflects a bank in motion, keen on leveraging its operational base for enhanced revenue generation. The growth in assets, alongside an increase in total capital, paints a picture of a bank committed to strengthening its financial foundation to support its ambitious growth and expansion strategies.

As the CBE charts its course forward, its strategies for growth, risk management, and financial stability will remain paramount, not just for the bank itself but for the economy at large

COOP-Oromia Twirls to Profit, Steps on Shareholders' Toes

A tale of growth, grit, and diluted gains

The Cooperative Bank of Oromia (COOP-Oromia) has managed to carve out a significant growth course, distinguishing itself among the banking industry's elite with a robust 26.8pc jump in net profits to 2.6 billion Br.

Yet, this financial achievement comes with a nuanced backdrop as the Bank's Earnings Per Share (EPS) experienced a notable decline, moving down by four Birr to settle at 30, reflecting the complexities underlying its fiscal strategies and the broader economic environment. The past year was marked by global uncertainties and domestic economic pressures.

The Bank's financial performance, particularly its profit growth amidst challenging global circumstances, including increased domestic conflicts and inflation, shows a strategic repositioning. The Bank's Board Chairman, Fikru Deksisa (PhD), told shareholders who gathered in Adama (Nazareth) town that COOP-Oromia's ability to steer through these headwinds was successful.

The 18-year-old Bank posted 300 million Br higher profits than its peer Hibret, while it fell significantly short of Awash's 6.99 billion Br, Dashen's 3.5 billion or the Bank of Abyssinia's 3.87 billion Br.

However, the reduction in EPS, a critical measure of profitability for shareholders, suggests a contrasting narrative of dilution, primarily attributed to the Bank's aggressive capital expansion. Over the year, COOP's paid-up capital saw a significant hike of 29.4pc, reaching a milestone of 10.02 billion Br, a strategic move aimed at fortifying the Bank's financial base but with immediate repercussions on shareholder returns.

Founding shareholders such as the Oromia Coffee Farmers Cooperative Union (OCFCU), with 273 million Birr shares, are feeling the pinch. Despite a notable increase in assets and loans, access to credit remains a challenge for the Union's half-million farmers, according to Dejene Dadi, the Union's general manager. He criticised the Bank's conservative lending during crucial harvest periods, a view attributed to rising non-performing loans that have tightened liquidity.

The Bank reported a 22.5pc growth in total assets to 140.33 billion Br, with loans and advances also rising by 20.5pc to 99.67 billion Br. This expansion came amid a strategic shift, as COOP-Oromia liquidated investments in National Bank of Ethiopia (NBE) bills, reallocating gains from government securities. However, a significant loan disbursement spree — 29 billion Br between July and December — precipitated a liquidity crunch, a move that the Bank's senior executives described as "aggressive."

We're becoming careful about large procurements this year.

Derbie Asfaw
President

"It was an aggressive disbursement," Deribe Asfaw, the Bank's President, told *Fortune*.

COOP-Oromia's financial health, in comparison to its peers, paints a mixed picture. With a loan-to-deposit ratio of 85.7pc and a capital adequacy ratio slightly down to 12.5pc from 13.2pc, the liquidity level of the Bank decreased both in absolute and relative terms. These figures signal a cautious approach, especially when compared with larger banks such as Abyssinia and Awash banks, which boast more substantial loan portfolios. COOP-Oromia's efforts to manage liquidity and ensure stability are evident in its borrowing of 3.183 billion Br from the central bank, a move analysts like the London-based financial analyst Abdulmenan Mohammed (PhD) view indicate deeper liquidity concerns.

He considered the Bank's profit growth impressive but raised concerns over the consecutive drops in EPS that could disappoint its 21,700 shareholders, identifying capital expansion as the primary cause.

"The returns weren't that great," Dejene told *Fortune*.

Dejene was informed by Bank management that the increment in sick loans had created a cash squeeze, which did little to appease the appetite of the half a million farmers in the Union.

According to Abdulmenan, an aggressive expansion of capital likely caused the drop. The Bank's President echoed his perspective and attributed the EPS dip to the increased allocations to risk reserves. Despite these, the analysts and executives maintain a positive outlook on the Bank's overall performance, implying a strategic calibration could reconcile growth with shareholder value.

▶ "We're in good shape," said Deribe

A fourth President of Coop-Oromia since its incorporation in 2005, Deribe was appointed president in 2016. He replaced Wondmagegn Negera, now the CEO of the Ethiopian Commodity Exchange (ECX). Incorporated with the 112.04 million Br paid-up capital and 300 million Br subscribed, the Bank increased its workforce to 15,395, deployed in a network of 738 branches; COOP-Oromia's operational footprint has significantly widened.

The expansion reflects its physical presence and in its financial indicators, with total assets bolstering by 22.5pc to reach 140.33 billion Br and a proactive approach to loan and advance increases of 20.5pc, totalling 99.67 billion Br. COOP's strategic posture is evidenced in its approach to revenue generation, which saw a diversified income stream contributing to its net profit growth. Interest income surged by 51.2pc to 12.22 billion Br, alongside notable increases in income from Murabaha financing (1.52 billion Br) and fees and commissions (1.94 billion Br), showing 59.2pc and 20.5pc growth, respectively.

Abdulmenan indicates that financial and non-financial intermediation revenues drove COOP's net profit growth.

"The growth of revenues is very impressive," he told *Fortune*. "The management of the Bank should be applauded."

Such financial vigour, however, is balanced by the Bank's cautious management of its loan portfolio, where provisions for impairment of loans soared by 53.5pc to 969.28 million Br, indicating a sharp focus on responding to credit risks amidst an uptick in non-performing loans (NPL). COOP-Oromia posted a far larger amount of provision than Oromia Bank's 70.2 million Br, Hibert (103.1 million Br), as well as Awash's and Bank of Abyssinia's 242.97 million 960 million Br, respectively.

"This should be very concerning," said Abdulmenan. "The management needs to be watchful of questionable loans and advances,".

Deribe suggested that increasing the Bank's provisions in a bid to enhance risk managment became necessary due to several loans passing the 30-day payment deadline.

However, the Bank's Bole Medhanialem Branch manager, Sentayehu Feyisa, saw significant progress in forex

Cooperative Bank of Oromia financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
140.33b Br	125.25m Br	10.02b Br	17.7b Br	14.3b Br	2.6b Br	30 Br
22.5pc ↑	21.4pc ↑	29.4pc ↑	46.9pc ↑	55.5pc ↑	26.8pc ↑	11.7pc ↓

Illustrated by: *Fortune* Source: Cooperative Bank of Oromia Annual Report 2022/23

Fikru Deksisa Sadesso, Chairperson

mobilisation, introducing new products and high deposit mobilisation as defining COOP-Oromia over the past few years. He believes that the recent spike in growth emerged from prudent managment of the slowdown in business activities across the economy over the past few years when conflict and liquidity challenges became rampant.

"We focused on retaining our corporate customers," Sentayehu told *Fortune*.

Gains on foreign exchange also increased by 43.2pc to Br 1.89 billion Br, while the loss on the same operation increased by 26.8pc to Br 1.96 billion, undermining the gains, Abdulmenan observed.

"Our forex commitments grew alongside our gains," Deribe conceded.

The Bank's operational expenses have come under scrutiny, revealing a significant uptick across various categories, including interest expenses, wages, benefits, and other operating costs. This upward trend in expenditures is seen as a reflection of COOP-Oromia's aggressive expansion and investment in its workforce, but it raises concerns about the sustainability of its revenue growth at a time of rising costs.

A comparison with industry peers shows COOP-Oromia's wage expenses at 3.32 billion Br, positioning it below some of the industry's heavyweights like Awash Bank's nine billion Br, yet substantially above others like Hibret Bank's 2.71 billion Br. The Bank's strategic spending on human capital could be commendable, but

Abdulmenan observed significant leaps in allowances and donations, which have soared to 768.96 million Br and 218.18 million Br, respectively, from much lower figures in the preceding period.

According to Abdulmenan, COOP-Oromia's management must rationalise the steep increase in these specific expenditure lines, stressing the need for a balanced approach to ensure operational spending aligns with strategic goals without compromising the Bank's financial performance.

"While the revenue growth is impressive, expansion of these expenses needs attention," he said.

The Bank's President blamed external pressures contributing to the rise in expenses, including the global increase in fuel prices impacting benefits packages and the higher commission fees tied to a surge in agent banking transactions. According to the President, these factors demand a cautious approach to large-scale procurements in the current fiscal year as part of a broader strategy to manage costs effectively.

"We're becoming careful about large procurements this year," Deribe told *Fortune*.

Despite not leading the pack in overall profitability — where COOP-Oromia still trails behind industry giants such as Awash, Dashen, and Abyssinia banks — its achievements, particularly in asset growth and market share, illustrated its robust market position. The Bank's focus on leveraging its cooperative model for enhanced community engagement and customer retention offers a unique competitive edge that could define its future in a rapidly evolving financial sector.

Yet, the road ahead for COOP-Oromia is as much about charting its internal strategic plans as it is about adapting to the external economic realities. Experts see the Bank's ability to balance aggressive capital expansion with shareholder value, manage operational expenses against revenue growth, and mitigate credit risks amid an expanding loan portfolio will remain critical ●

Dashen Bank Defies Forex Flux, Posts Profit in Choppy Waters

In a financial landscape beset with market uncertainty, Dashen Bank has registered a modest increase in net profits in its operations for 2022/23. While this marks a positive trajectory, the growth is notably less vigorous than the prior year's leap of 68.3pc.

The results, however, displayed an impressive net profit margin of 22.8pc, despite the deceleration in growth momentum. Posting a net profit of 3.56 billion Br, the Bank has witnessed significant income streams from fee-based and interest-related activities, posting a 43.9pc rise to 3.67 billion Br in the former and a 36pc increase to 13.41 billion Br in the latter.

These numbers mirror Dashen Bank executives' strategy to diversify revenue streams, extending beyond the conventional banking interest sources.

To consolidate its position in the industry, Dashen Bank has raised its paid-up capital to an impressive 9.3 billion Br, signalling a commitment to consolidate its market position. This is short by 2.7 billion Br of the paid-up capital shareholders have opted to mobilise by 2026, setting the stage for enhanced competitiveness. Dashen's asset base enlargement, coupled with a growing portfolio of loans and advances, hints at a robust growth trajectory and an ambitious expansion blueprint.

A keen observer of the banking landscape and financial analyst, Abdulmenan Mohammed (PhD), applauded Dashen's performance for the year.

"The growth of the two income categories was impressive," he told *Fortune*.

Loans and advances (including interest-free financing) grew to 100.2 billion Br, representing an increase of 28.5pc.

However, this strategic choice could affect the return on equity if not offset by improved profit margins or more efficient use of assets, analysts caution. It has resulted in a notable drop in earnings per share (EPS). While the figure remains competitive within the banking industry, EPS dipped by 90 Br to 442 Br, denoting a potential area of concern for shareholders.

In the words of Dashen Bank's President, Asfaw Alemu, raising paid capital was the reason for the fall in share earnings.

Dashen Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
144.6b Br	125.3b Br	9.34b Br	17.9b Br	12.9b Br	3.56b Br	442 Br
24.7pc ↑	23.6pc ↑	36.2pc ↑	38.9pc ↑	41.8pc ↑	22.8pc ↑	16.9pc ↓

Illustrated by: *Fortune* — Source: Dashen Bank Annual Report 2022/23

Asfaw Alemu, president and Abebe Teklu, board director of Dashen Bank during the annual general assembly.

Dashen Bank has expanded its loan portfolio by 28.5pc, indicating its aggressive credit growth strategy to capture more market share. This move aligns with the Bank's President strategy. He emphasised enhancing customer service to improve retention and remain competitive - responding to shareholders' service quality concerns.

The Bank's administrative expenses have ballooned, partly due to the opening of 253 new branches - an expansion that contributes to its infrastructural development but poses a challenge in maintaining profitability, especially under the spectre of inflation.

Asfaw's remarks about the role of inflation in driving up operating expenses highlighted the macroeconomic challenges the banking industry faces. With inflation, the cost of maintaining a widespread branch network and staffing it adequately can escalate quickly. Managing these costs without compromising service quality will be a crucial test for Dashen's management, according to Abdulmenan.

"Management of cost to income ratio is part of our new strategy," Asfaw told *Fortune*.

The Bank's dealings with foreign assets and liabilities have been a delicate one. Analysts see the ebb and flow of net foreign assets reflecting more than mere balance sheet entries — they serve as a barometer for Dashen's susceptibility to the whims of foreign exchange volatilities, a crucial point for business associates with an eye on international exposure.

The Bank's foreign exchange operations have faced a downturn, a pressing issue in the face of the forex crunch the economy experienced in recent years. In the wake of decreasing forex income, the management focuses on operational efficiency, a necessary shift as Asfaw and his team reassessed the forex management in anticipation of strategic shifts. He disclosed that strategic management of forex allotments is crucial in mitigating losses.

Running Dashen since 2018, Asfaw signalled ongoing initiatives to prepare for increased competition. He is an economics and policy management graduate from the University of Ghana with stints at the Development Bank of Ethiopia (DBE), Unity University ▸▸

and Wagagen Bank where he amassed diverse experience for three decades. For the past 19 years, he managed the corporate planning and credit departments of Dashen Bank before assuming his presidency.

Under his management, Dashen Bank has seen lending activities expand and a steady increase in interest on loans and advances. Since its incorporation in 1995, with a paid-up capital of 14.9 million Br raised from 11 shareholders, Dashen Bank has grown to enlist 2,600 shareholders, who met at the Skylight Hotel on October 26, 2023.

Despite earnings per share dropping, these shareholders have continued to raise their voices over customer service issues alongside financial outcomes.

Neguse Changue, a shareholder for five years with 800 shares, expressed a slight disappointment in the decline of EPS from the year before. His frustration with the customer service across branches and the head office was more apparent.

"They've to improve service to retain customers," he told *Fortune*.

Branch managers, such as Tiruneh Getahun, operating in the Mexico Square area, attest to the Bank's performance as commendable even in the face of market uncertainties.

"We're facing challenges in acquiring new clients," Tiruneh told *Fortune*, recognising that transactions between accounts have decreased across the financial sector while his branch is largely spared from the problem.

He attributed this partly to the customers visiting the Ethiopian Commodities Exchange (ECX) sharing the same space with the Bank.

However, forex income has halved, and Dashen's impairment losses have increased — a trend that has caught the attention of financial analysts. Keeping up with a continued four-year decline, Dashen's foreign exchange earnings had fallen by almost half from 681.22 the previous year. Financial analyst Abdulmenan believes the size of the loss should be a concern to the Bank's executives.

"We're managing the forex allotment to reduce losses," the President told *Fortune*, acknowledging that more work will be necessary to deal with the declining forex income in the long run.

Operational expenses, which surged by 82.7pc to 2.96 billion Br, are a concern, amplified by a 58.6pc salary hike to 4.74 billion Br. The rise in loan impairments has been partly ascribed to loans disbursed in the Tigray Regional State,

Shareholders should be delighted.

Abdulmenan Mohammed
Analyst

while the salary increases relate to the branch network's expansion.

Dula Mekonen, chairman of the Board, has recognised the Bank's growth despite the emergence of digital and traditional competitors and the influence of mandatory treasury bond purchases on credit operations. The Bank's capital adequacy ratio, an indicator of financial stability, remains robust. Standing well above the regulatory minimum, it reflects Dashen's healthy capital reserve, essential for absorbing potential losses and sustaining confidence among depositors and shareholders.

Abdulmenan, however, stressed the importance of prudent management in light of the Bank's liquidity and capital adequacy ratios, which currently exceed regulatory requirements.

In the face of these challenges, Dashen Bank's executives say they are not relying on the traditional growth levers of branch expansion and capital build-up but are equally prioritising operational efficiency and service quality. The Bank has embraced a comprehensive growth strategy, leveraging its expanded branch network to deepen customer relationships and increase its market presence.

The Chairman, Dula, encapsulated this sentiment by recognising the Bank's performance against a backdrop of considerable economic and regulatory shifts.

The digital realm is another front where Dashen is aggressively marking its territory. Confronting digital disruptors head-on, Dashen Bank says it is improving digital service offerings, reinforcing its adaptability in a rapidly evolving financial sector.

According to the President, operational efficiency has become a critical issue for the Bank's leadership.

"We're working to improve customer service culture," Asfaw told *Fortune*.

With administrative expenses taking an upward trajectory, particularly in the wake of inflationary pressures, there is a push towards streamlining operations. The Bank's leadership is tasked with the delicate balance of expanding its reach while also maintaining a tight rein on costs — a balance that is essential for sustainable growth, according to Abdulmenan.

Financial analysts like him keep a keen eye on the Bank's financial health indicators.

Dashen Bank's strong liquidity position suggests a buffer against short-term shocks. Yet, the increase in loan impairments serves as a cautious reminder of the need for stringent credit risk assessment and management — Dashen increased losses on impairment of loans and other assets to 601.14 million Br from 270.09 million Br.

As one of the first-generation private financial institutions, Dashen Bank has navigated the choppy waters of liquidity with a measure of finesse, evidenced by its relatively high liquidity ratio of 19.6pc in the first quarter of 2020/21. However, recent figures suggest a contraction to 14.6pc by the fourth quarter of 2022/23, signalling a tightening of the Bank's liquid assets relative to its liabilities or a swelling of the latter.

Despite these shifts, Dashen has maintained a commendable adherence to the regulatory reserve mandates, occasionally buffering these with a surplus, demonstrating a conservative approach to liquidity management that may resonate with risk-averse shareholders. The constancy in the deposit turnover ratio hovers around 60pc, showing a steady tempo in the Bank's operational cycles, wherein deposit inflows and outflows are balanced — a demonstration of the Bank's operational knack in managing depositor funds for lending and investment undertakings.

Dashen's executives walk a tightrope balancing loan-to-deposit, striving for profitable lending that boosts earnings while sidestepping the pitfalls of overexposure that could sour in less favourable economic climates. The Bank mobilised deposits of over 114 billion Br, an increase of 25.9pc from last year. However, it is contending with liquidity and credit risks, with a loan-to-deposit ratio of 87.2pc, calling for rigorous risk management prudence.

Compliance with reserve requirements has been a feather in Dashen's cap, pointing to a disciplined fiscal position within the requirement set by central bank regulators. Occasionally, the Bank's positioning well above the minimum reserve threshold shows a prudent, if not cautious, risk outlook, analysts say ●

Enat Bank's Modest Size Among Titans Searching for Its Sling

Enat Bank has not only held its ground but has also surged ahead, marking a notable achievement in its performance over the 2022/23 operating year. In an industry where competition is fierce, and every point of growth is fought for, its profit of 543 million Br was remarkable, posting a 73pc growth.

The leap positioned the Bank ahead of its peers, including Addis International Bank, which reported a profit of 223 million Br, and Berhan Bank, with a gain that fell short by nearly 35 million Birr. The Bank's Earnings per Share (EPS) surged by 54 Br to 239 Br; while falling short of Global's impressive 292 Br, it stood out significantly higher than Addis Bank's 129 Br and Berhan's 156 Br. Abdulmenan Mohammed (PhD), a financial analyst based in London, who still sees room for improvement to reach the industry average growth of 34pc, described the growth in EPS as impressive.

"Shareholders ought to have been delighted," he said.

Nonetheless, the 23.9pc EPS, significantly lagged behind the average, hinting at lower profitability per share. With a Return on Equity (RoE) of 12.8pc and a Return on Asset (ROA) of 1.9pc, the Bank trails the industry's average, where EPS reached a weighted average of 38.4pc for 15 private commercial banks, RoE at 19.8pc, and RoA at 2.4pc.

At the core of Enat Bank's financial upswing is a robust increase in financial and non-financial intermediation activities. These have catalysed a notable rise in profit after tax, driven by a 37.3pc increase in interest from loans, investments in treasury bills, and bonds, culminating at 2.3 billion Br. Service charges and commissions more than doubled to 961.1 million Br, demonstrating a diversified revenue stream, even as income from foreign exchange dealings saw a 14.4pc decline to 21.7 million Br.

The average income for 15 banks reflected a more robust financial performance, with total income averaging 7.3 billion Br and expenses at 5.3 billion Br, yielding a gross profit of a little over two billion Birr.

However, Enat Bank's income growth came alongside a significant uptick in operational costs, a trend common for the industry.

Interest expenses on savings jumped by 17pc to 1.37 billion Br. Wages and benefits saw an 88.4pc increase to 678.83 million Br, positioning the Bank's expenditure on wages below Berhan's 1.62 billion Br but above Addis International's 481.8 million Br and slightly below Global's 731 million Br. Other operating expenses also saw a 63.5pc increase to 405.9 million Br, while provisions for impairment of loans and other assets soared, marking a nearly tenfold increase from the previous year to 149.3 million Br.

"This is alarming," Abdulmenan cautioned.

Erimias Andarge, who has helmed Enat Bank since 2020, attributed the expense surge partly to the Bank's aggressive branch expansion strategy, which saw the opening of 46 new branches and hiring 577 staff members within the fiscal year.

As the higher provisions during the fiscal year revealed, Ermias defended the expansion as "necessary to lower risk and enhance capability."

Under Erimias's watch, Enat Bank's

total assets grew by 32.5pc to 22.8 billion Br, surpassing Global and Addis International and presenting a formidable challenge to Berhan Bank's reign on this front. The Bank also reported a 33.5pc increase in loans and advances to 14.9 billion Br, signalling its executives' aggressive lending strategy amidst an industry-wide liquidity crunch. Erimias stressed the Bank's cautious approach to loan disbursement, aiming to navigate the challenging financial terrain without succumbing to financial strain.

"We weren't simply handing out loans," the President said.

Erimias, with an experience spanning over 25 years in the banking sector, including a tenure at the Bank of Abyssinia, has positioned Enat Bank as a noteworthy player in the face of industry-wide challenges, including inflation, competition, and liquidity constraints.

Enat Bank's total assets signify approximately 26.7pc of the average total assets held by the benchmarked 15 banks, showing its relative size in the industry. This disparity extends to profitability metrics, with Enat Bank's profit after tax representing merely 1.41pc of the combined profit after tax for the 15 banks.

Despite its smaller scale compared to the industry leaders, Enat Bank's operational efficiency and strategic positioning suggest a potential for significant impact within the banking industry. Its capital adequacy ratio stood at an impressive 20.2pc, higher than both Berhan and Global, reflecting a solid capital base that exceeded the operational requirements set by regulators.

Yet, the Bank faced limitations, particularly in improving its operational efficiency to match its growth. The need for a delicate balance to rein in inflation without triggering a recession has never been more critical, according to Board Chairwoman Frehiwot Worku.

Enat Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Profit After Tax	Earning per Share
22.8b Br	19.2b Br	2.54b Br	3.3b Br	543m Br	239 Br
32.5pc	31.5pc	31.6pc	51pc	73pc	29.1pc

Illustrated by: *Fortune*

Source: Enat Bank Annual Report 2022/23

"The Bank's strategy has been to maintain a prudent loan-to-deposit ratio," she said, addressing the general assembly held in Millenium Hall in December.

The liquidity level at Enat Bank increased in value and relative terms, with cash and bank balances witnessing a significant increase.

Abdulmenan applauded the management for maintaining a healthy liquidity level.

"They should continue this approach," he said.

With a commendable increase in deposit mobilisation to 17.8 billion Br, the Bank witnessed diminished foreign currency reserves, heightened competition, and reduced liquidity with notable success. However, challenges such as the ongoing scramble for experienced staff and delayed loan repayments by contractors proved to be daunting operational hurdles the Bank continues to face.

Habtamu Mengitsu, a branch manager at Mexico Branch for the past eight years, is pleased with his branch's performance. He believes they have successfully come out on top of their peers.

Incorporated with 135.5 million Br paid-up capital raised from 7,972 shareholders, the 12-year-old Enat Bank's strategic expansion and operational adjustments, including a significant increase in paid-up capital by 31.6pc to 2.54 billion Br, reflect a commitment to sustainable growth and shareholder value. Enat Bank's equity base, comprising approximately 28,000 shareholders, including Mikeal Tesfaye, who has been a shareholder for eight years, saw the Bank's strong community ties and the trust it has cultivated among its shareholders.

The Bank's commitment to improving its service culture and operational procedures has not wavered, according to Mikeal. However, he called for increased loan disbursement and foreign currency provision to demonstrate its potential areas for growth to attract and retain customers.

"I wouldn't even look elsewhere if they were disbursing loans," he told Fortune.

When measured against the aggregated averages of 15 private commercial banks, Enat Bank remains a modest-sized bank. The average share capital among these banks stood at 4.5 billion Br, three times its size. The average for these banks has total equity and liabilities reaching 7.7 billion Br and 56.6 billion Br, respectively, and assets totalling 64.3 billion Br. Enat Bank's total equity was 3.5 billion Br and liabilities amounting to 19.2 billion Br, culminating in total assets valued at 22.7 billion Br.

Enat Bank's capital and equity proportions relative to the industry offer a silver lining. The Bank's capital and total equity command a substantial 42.4pc and 33.5pc, respectively, of the aggregate figures for the 15 banks. However, its financial strength contrasts sharply with its operational performance metrics, where its share of total income, profit after tax, and total comprehensive income significantly trails the averages at 1.97pc, 1.41pc, and 1.45pc, respectively.

While Enat Bank established a solid foundation in assets and equity, its executives' ability to translate the financial rebound into comparable income and profitability remains to be seen ●

"We weren't simply handing out loans.

Ermias Andargie

President

DOES THE FINANCIAL SECTOR LEAVE WOMEN BEHIND?

The underrepresentation of women in the financial sector is a ubiquitous norm that is not limited to Ethiopia. Generally, ensuring women are part of the top leadership should not only be a matter of fairness but also vital for a successful socio-economic and political strategy. Policies and initiatives that lack gender intentionality, despite being well-intentioned, risk leaving over half of the population behind, resulting in far-reaching consequences, argues Sewit Haileselassie Tadesse, a gender analyst working with the Women's Digital Financial Inclusion Advocacy Hub under the United Nations Capital Development Fund (UNCDF).

The National Bank of Ethiopia (NBE) recently shared a photograph of the Governor's meeting with board chairs and chief executive officers of commercial banks. The meeting was held to outline priorities for the central bank's three-year strategic plan. The snapshot shared on its Twitter page presents the banking industry's higher echelons. The photograph paints a clear picture where two women in a sea of dark suits sit, perhaps coincidentally, both dressed in purple.

The meeting, chaired by the Governor, is an apt depiction of the modus operandi of the financial sector and, subsequently, the economy. In this realm, gender inequality appears as a footnote and a prevailing order.

For all the close observers of Ethiopia's financial sector, and anywhere else in the world, the gender gap in leadership is quickly recognised as a challenge symbolic of broader issues. The pervasive lack of female leadership in the financial sector manifests systemic problems that resonate with profound implications, extending far beyond the boardrooms and into the fabric of society as it has been reflected upon ad-nauseam. Financial inclusion and lack of representation in leadership within the financial sector continue to be critical challenge that stands in the way of gender equality.

While it may not be feasible to analyse in-depth the absence of women's leadership globally in a magazine column, it may be the opportune time to look at the financial sector in Ethiopia and its broader implications. Any proponent of women's empowerment would habitually count the number of women in the room to gauge the level of effort towards representation in any forum. Representation matters, especially where gender equality and women's economic empowerment are the goal.

A society that permits the representation of only half of its population in leadership and decision-making roles cannot claim to be healthy or fair. However, it is also essential to take a step back from being reactive to just one photograph of one meeting in one sector and look deeper at the issue.

It is essential to probe why so few women are broadly climbing the leadership ladder in the banking and financial sectors. Taking the query one step further, it is essential to assess the broader repercussions of this status quo to society overall and women and girls in particular. It is vital right now, more than ever, for women to pay close attention to the development in the financial sector as well as the economic reform agenda more broadly. The fourth industrial revolution has arrived, and it is a charging train that threatens to leave women behind. This is not just limited to the traditionally male-dominated space that is the realm of finance.

Not just the lack of women's leadership in commercial banks and other financial institutions poses a risk. It is crucial to look beyond the immediate impact of having a diverse leadership and probe into the broader ecosystem repercussions of women's inclusion in the financial sector.

How does the lack of women in leadership within financial institutions affect, say, product designs, marketing, and service delivery for women?

Representation matters, but it is not all there is to it. The prevailing status quo at the topmost echelons of financial leadership poses a wider risk for women in economic policymaking, where there is a lack of effective harmonisation in the design and implementation of policy frameworks that promote inclusivity and women's economic empowerment.

Harmonisation, collaboration, and joint action for meaningful change for gender equality and women's economic empowerment starts here and now. Women are less likely than men to have a bank account in their name because they still face obstacles to being financially included. In 2022, the gender gap in Ethiopia for financial account ownership has increased from two percent in 2014 to 17pc (FINDEX 2022). According to a recently released report from FINDEX, affordability, accessibility, lack of documentation, and low levels of skills and capability act as barriers to women's financial inclusion. Women must not be left behind as the country works to transition to a new digital economy, opening its doors and, importantly, its economy to the world. Ethiopian women should hop on the train today and hang on for dear life.

In work around financial inclusions, a blanket term 'social norms' describes the intangible and unquantifiable reality of gender inequality that limits women's access to and productive use of resources and decision-making. In many corners, it is considered an insurmountable barrier that limits promoting women's inclusion, but there is so much that can be done.

Kate Raworth, the author of "Doughnut Economics", muses in her book that Adam Smith's model of the rational man so obviously excluded women's points of view because Smith was oblivious to the invisible hand serving his dinner. The age of orthodoxy in the financial and economic sectors is no more. Thankfully, advances in economic thought, finance, management, and beyond have progressed to adapt gender considerations in their frameworks.

Women must not only join the journey towards a digital and inclusive future but be integral in steering its course.

Cultivating young women and girls in finance starts in mathematics classrooms, universities and entry, and entry-level jobs. There are spaces where individual bias on the side of teachers and supervisors discourages young women and girls from pursuing careers in Science, Technology, Engineering, and Math (STEM). It is vital to become intentional about cultivating future women leaders in the financial sector and beyond through mentorship and coaching. It is also essential to reflect on enabling environments in the workplace that would encourage young women professionals to engage in the workforce while elevating their burdens of a second and third shift in the home and community.

While it is obviously the right thing to include women in the workplace, promote a healthy work-life balance in organisations and promote parity in leadership development, it is not all a matter of altruism. There is a documented diversity dividend for organisations that have gender parity in their leadership that unequivocally demonstrates that elevating women to decision-making positions has payback in tangible financial terms for organisations as well as for the broader economy.

Suffice it to say that whatever the motivations for incorporating inclusive policies and practices, it is evident that the results are fruitful for all.

It is important for women leaders and allies working towards gender equality and women's economic empowerment in Ethiopia to take note that now is the time to pay attention to these nuances. It is not just gender norms that act as barriers to women's empowerment generally; it is a combined plethora of legal, social, and economic barriers.

The implementation period of the second draft of the National Financial Inclusion Strategy ends in two years and has a gender-intentional approach to its design and implementation. The Home-Grown Economic Reform Agenda's second edition, i.e., the HGER 2.0, is about to be released and identifies gender as a cross-cutting issue and the financial sector as a priority sector for economic reform. The women's national policy is being revised after three decades and has components that will impact women's economic empowerment.

These initiatives offer a window of opportunity to reshape the annals. The challenge now is ensuring that these policy frameworks are well-intentioned and effectively executed to create meaningful change.

With the fourth industrial revolution upon us, Ethiopia stands at a crossroads like the rest of the world. Women must not only join the journey towards a digital and inclusive future but be integral in steering its course. Now is the time for those committed to gender equality and women's economic empowerment to pay attention, act, and ensure that the call for inclusivity translates into tangible outcomes for all of Ethiopia's citizens●

ሕብረት ባንክ Hibret Bank

Hibret Bank Turns Silver Jubilee into Golden Returns

Banking underdog smirks at economic adversities with historical jump in net profit

Hibret Bank marked its silver jubilee with an impressive financial feat, posting an outstanding 111pc surge in net profits, reaching 2.3 billion Br, traversing economic adversities such as soaring inflation, political unrest, and shifting fiscal policies. The performance positioned Hibret Bank as a noteworthy contender in the intensely competitive banking terrain despite its relatively modest ranking compared to industry behemoths like Awash, Abyssinia and Dashen banks.

The surge in profitability was announced at the annual shareholders' meeting, held at the Sheraton Addis, where attendees revelled in the doubled profit earnings from the previous year, now standing at 50.72 Br per share. The Earnings Per Share (EPS) Hibret posted at 50.7pc may be respectable but overshadowed by the 32.2pc average for 15 private banks and the leading banks such as Awash Bank (57pc), Abyssinia (56.8pc) and Dashen (53.2pc).

Samrawit Getamesay, the board chairwoman, outlined the financial success achieved in a backdrop of high inflation rates, political unrest, dwindling foreign currency reserves, and the gradual lifting of fuel subsidies.

Despite its modest footprint compared to giants in the industry, Hibret Bank remained a significant player with a paid-up capital of nearly 4.7 billion Br, positioning it as a mid-tier financial institution. Its capital base is less than half of the industry's highly capitalised private bank (Awash).

Its total equity of 7.2 billion Br is very close to the 7.7 billion Br average for these banks, while its total assets amounting to 82.5 billion Br exceeds the 64.3 billion Br average, illustrating its modest yet competitive stance in the market. However, this is in sharp contrast to the larger banks such as Awash, which boasts equity of 20.9 billion Br, and assets size of 242.9 billion Br.

Hibret Bank's income was reported at a little over 10.3 billion Br, one-fifth of Awash Bank. It recorded a return on equity (ROE) of 14.7pc, lower than the industry average of 19.8pc and significantly trailing behind leaders such as Awash (25.8pc) and Abyssinia Bank (24.7pc). ROE is a crucial measure of a company's effectiveness in using its assets to generate profits, suggesting areas for improvement for Hibret. The Bank's return on assets (ROA) stood at 1.6pc, below the industry average of 2.4pc and well under second-generation banks such as Zemen and Addis International.

Hibret Bank's notable profit increase was attributed to a significant rise in interest income, reduced provisions for loan impairments, increased commission income, and lower administrative expenses, alongside a lower profit tax bill. Particularly

Hibret Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
82.58b Br	73.2b Br	4.78b Br	10.32b Br	7.26b Br	2.3b Br	50.72 Br
22.51pc	21.6pc	11.3pc	27.45pc	16.7pc	111pc	92pc

Illustrated by: *Fortune*

Source: Hibret Bank Annual Report 2022/23

impressive was Hibret's performance in financial intermediation. Interest on loans, advances, and investments in securities increased by 28.7pc to 8.6 billion Br. Provisions for loans and other asset impairments plummeted by 84.3pc to 103.1 million Br, markedly less than its peers.

Melaku Kebede, the Bank's president, attributed part of this success to the resurgence of businesses in the war-stricken Tigray Regional State, which has resumed positive earnings, aiding the reduction in provisions for loan impairments. Under Melaku's watch, the bank has shown prudent management in branch expansions, which were capped at 49 for the year, with 1,139 new staff recruited. The total branches reached 473, served by a total workforce of 8,839.

An alumnus of Addis Abeba University, Melaku has nearly two decades of experience in the banking industry and has been at the helm of Hibret for three years.

London-based financial statement analyst Abdulmenan Mohammed (PhD) lauded the Bank's management for these measures, noting the 15pc rise in commissions and service charges, which surged to 1.49 billion Br.

"The reduction significantly contributed to profit growth," Abdulmenan observed.

The Bank's approach to managing expenses was also noteworthy, as it maintained a balance despite promoting wage and benefits packages.

Samuel Ararso, a deputy manager at Hibret's Sidist Kilo branch, agreed that the relocation of major branches to the Bank's headquarters and its limited expansion might have contributed to the profit growth.

Liquidity issues, fueled by instability in parts of the country, were identified by Samuel as a primary concern for the industry. Staying with the Bank for a decade, he also stressed the Bank's focus on developing its technology assets, a sentiment echoed by the Bank's

Melaku Kebede, President

leadership.

"We're at the forefront of the digital era," he told *Fortune*, referring to an emerging demand from customers.

Dereje Taye, one of the 352 founding shareholders, expressed satisfaction with the Bank's overall performance and indicated an interest in increasing his stake to more than the two million Birr shares he owns in the Bank. He suggested that more time should be given when shares are floated, reflecting the shareholders' confidence in the Bank's future.

Shareholders' resolution to increase the paid-up capital by 11.3pc to 4.78 billion Br in the financial year remains 220 million Br short of the regulatory minimum threshold the central bank earmarked for 2026. The Bank's Capital Adequacy Ratio (CAR), at 12pc, was

Replacing some of the board members might be necessary.

Dereje Taye

Founding Shareholder

higher than the regulatory threshold, demonstrating the Bank's sound profit earnings. However, Abdulmenan recommended that shareholders further consolidate the Bank's paid-up capital as a precautionary measure, considering its incorporation with a modest 21.3 million Br, in the mid-1990s.

Despite the Bank's conservative approach to branch expansion, its interest expenses increased by 32.47pc to 3.06 billion Br, outpacing its growth in interest income. This increase is thought to be driven by a rise in the saving rate, as deposits grew by 20pc to 64.54 billion Br. However, the surge in wage expenses by 60.4pc to 2.71 billion Br was viewed as a concerning development by Abdulmenan, despite a decrease in general administration expenses.

The Bank's total assets also experienced a growth of 22.4pc, with its disbursed loans and advances growing by 31.4pc to 59.2 billion Br. However, Hibret's disbursement remains significantly behind that of its larger competitors such as Awash's 159.37 billion Br, Abyssinia's 143.8 billion Br and Dashen's 100.2 billion Br. Its loan-to-deposit ratio of 91.7pc was cautioned against further increases, as it might affect liquidity.

Melaku acknowledged the increase in the loan-to-deposit ratio and disclosed plans to reduce it to below 85pc, lower than the 87.6pc average for the 15 banks.

According to Melaku, the strategy aligns with the Bank's aspiration to balance growth with financial stability.

Hibret Bank's liquidity level has shown some decline. The total cash and bank balances dropped by 13.4pc to 9.23 billion Br, and the ratio of cash and bank balances to total assets lowered by 3.6 percentage points to 11.2pc. The liquidity decline was a concern for Abdulmenan, who urged the Bank to operate with sufficient liquidity.

"Hibret was operating with tight liquidity," said Abdulmenan.

Dereje, teh shareholder, urged executives to retain the momentum of keeping up with industry leaders. He suggested infusing younger talent into the management pool to bring new ideas and emerging trends.

"More effort is necessary to keep up with peer banks," he told *Fortune*. "Replacing some of the board members might be necessary"●

Hijra Bank Navigates Early Turbulence in Budding Financial Frontier

The nascent Islamic banking sector is facing a steep uphill climb as its newest entrants grapple with substantial first-year operating losses. Among these, Hijra Bank, one of the country's first fully-fledged Islamic banks, incurred a loss of 143 million Br in its inaugural year, generating palpable shareholder discontent during its median annual general assembly.

A glance at the Bank's balance sheet may portray a concerning forecast. However, Dawit Keno, Hijra's founding president, believes these are merely birthing pains of an ambitious newcomer. He pointed to a steep surge in operational expenses due to a bold expansion strategy, which saw the launching of 40 branches within a year as a primary reason behind the income-expense mismatch. The Bank spent 166.25 million Br on wages for its 413 staff and administrative expenses while earning an income of a meagre 19.1 million Br. Yet, Dawit contends these high-cost investments in technology and overheads are critical to reaching an underserved clientele.

Dawit Keno, President

Despite teething troubles, Hijra Bank attracted over 134,845 customers for its Sharia-compliant services during its first year.

Analysts argue that Hijra Bank must find a way to recoup these initial expenses through an efficient growth strategy. Dawit, however, maintains a bullish outlook, expressing confidence that this assertive spending will deliver returns in the long run.

"It was used for interest-free financing," Dawit told *Fortune*.

A veteran with 30 years of banking experience, Dawit is no stranger to the field. Studied economics as a post-grad at Addis Abeba University, he started his career at the state-owned Commercial Bank of Ethiopia (CBE). Subsequently, he rose to the position of Vice President.

A factor that seems to favour Hijra Bank is its high liquidity, with cash and bank balances making up 42.93pc of total assets and 69.08pc of total liabilities. However, analysts stress that this liquidity must be leveraged towards income-generating activities. Dawit shares this sentiment and suggests that these resources will be channelled into interest-free financing.

Hijra amassed total assets of 2.28 billion Br, despite the challenging first year. Although the Bank's interest-free financing of 839.7 million Br fell short of its competitor - ZamZam's - performance, it nonetheless disbursed 370.84 million Br, in addition to a Mudarabah investment of 440 million Br. Hijra Bank also mobilised 1.33 billion Br in savings over the operational year.

An analysis of the Bank's interest-free financing-to-saving ratio, however,

highlights an impending challenge. At 27.79pc, Hijra's ratio is half that of ZamZam. Dawit attributes this gap to the three-month head start that ZamZam had over Hijra.

Islamic banking is relatively new in Ethiopia, a country of over 114 million, with a significant portion practising Islam. Drawing parallels with the success of Malaysia's Islamic banking sector, which represents about 30pc of its total banking industry, the potential that lies with Ethiopia is massive.

Historically, regulatory resistance posed significant obstacles to the launching of Islamic banking. However, the ascension of Prime Minister Abiy Ahmed (PhD) in 2018 brought a notable shift in this trend, with the inception of ZamZam and Hijra banks as fully Sharia-compliant banks. They were later joined by Shebelle and Rammis banks, further diversifying the nascent sector.

Despite this progress, Islamic banking in Ethiopia is not without its challenges. Research conducted in 2021 revealed significant hurdles, including a poorly structured legal framework, a lack of accounting standards, and the absence of a secondary market for Islamic financial products. According to the researchers, Suadiq Mehammed and Ahmed Nasser, policy responses to these problems must address both institutional and operational aspects, focusing on robust training and research, addressing the scarcity of profit-sharing financial sources, and improving deposit mobilisation.

Practical issues, like a lack of branches in prominent business areas such as Merkato, also added to Hijira's performance woes during its inaugural year, says Bilal Mohammed, a manager of Nejashi Branch manager, near Olympia roundabout. He noted that this limitation pushed customers towards conventional banking outlets for withdrawals and payments, thereby exacerbating the situation.

Financial analyst Abdulmenan Mohammed (PhD), based in London, observed that Hijra Bank might need several years to post substantial returns. It is a view shared by Nebiyu Nesru, one of the 10,000 founding shareholders, who believes the significant initial investment is a strategically wise move, despite the delayed returns.

"I wouldn't expect a decent return in the next three years," Nebiyu told *Fortune*, adding that improved policy and legal frameworks would help bolster the products offered by Islamic banks.

> **I wouldn't expect a decent return in the next three years.**
>
> **Nebiyu Nesru**
>
> **Founding Shareholder**

He also advocated for Hijra Bank to expand its capital base and prioritise employing experienced staff to enhance institutional competitiveness.

In response to these challenges, Hijra's shareholders agreed during its first general assembly, to increase its capital to six billion Birr to bolster the capital base, exceeding the central Bank's minimum capital requirement of five billion Birr that all private banks must meet by 2026.

This move follows Hijra's initial subscribed capital of 1.2 billion Br and 543.1 million Br in paid-up capital. The plan aimed to increase paid-up capital to 979.93 million Br, but the Bank's total paid-up capital and non-distributable reserves totalled only 862.52 million Br due to the significant loss incurred.

Despite these fiscal challenges, Hijra's capital adequacy ratio was an impressive 232.58pc. While such a surplus of capital is a positive indicator, it needs to be utilised efficiently and strategically, according to Abdulmenan.

The Bank's first-year performance has raised questions about Hijra's growth scalability and ability to convert capital and liquidity into profitable ventures quickly. Analysts warn that the Bank executives' decision to finance a significant expansion through an ambitious capital may not yield immediate returns due to the niche market nature of the Islamic banking sector and existing regulatory challenges.

Hijra's management will need to exhibit both strategic insight and perseverance to steer the Bank towards profitability, according to the analyst ●

Lion Bank Roars Back from the Shadow

Lion Bank has emerged from a period of turbulence with a performance that commands attention in an industry where giants loom large. With an 82pc surge in net profit to 489.52 million Br, it defied the odds despite economic uncertainties and the aftermath of a devastating war in the north. The impressive rebound, while contrasted against its larger peers, tells a story of resurgence and operational grit.

However, a closer analysis reveals a picture of recovery that, while significant, suggests Lion Bank is passing through trying times. The recovery is particularly impressive considering that its net profit had plummeted to 334.5 million Br the year before from a high of 643.1 million Br two years ago. Despite these gains, Lion Bank's performance, when viewed against the backdrop of its peers — such as Abay (1.55 billion Br), Buna (949 million Br), and Berhan (508 billion Br) banks net profits — paints a picture of an institution that is still finding its footing in a competitive industry.

Following the increase of its par value of the shares to 1,000 Br this year, the earnings per share (EPS) Lion Bank posted soared from 10.6pc to 18.73pc. Although it is significantly lower than Abay's 36pc and Buna's 23.6pc, it is higher than Berhan Bank's 15.6pc.

Abdulmenan Mohammed (PhD), a financial analyst based in London, pointed to the growth in financial and non-financial intermediation income and a significant reduction in provision for loan impairment as crucial to the Lion Bank's promising results. Interest income saw a 10pc growth to 4.17 billion Br, while fees and commissions jumped by 143.9pc to 179.44 million Br. Other operating income also experienced a substantial rise of 134.1pc to 298.23 million Br.

According to analysts, these figures indicate the Bank's ability to leverage its core operations for growth, even in a challenging economic environment.

The Bank's interest expense modestly increased by 11.9pc to 1.97 billion Br while it significantly recovered from the losses arising from a substantial provision of losses for loan impairment. Expenses surged after the stagnation of the preceding year. The total staff expenses rose by 21pc to 953.16 million Br, lower than Abay (1.91 billion Br), Berhan (1.62 billion Br) and Buna (2.08 billion Br). Other operating expenses soared by 46.6pc to 551 million Br.

However, Lion Bank's foreign exchange operations have been a cause for concern, with losses amounting to 197.57 million Br in the 2022/23 operation year, following losses of 176.73 million Br and 174.08 million Br in the preceding two years. This trend has raised alarms about the Bank's forex risk management strategies and their adequacy in averting such losses.

Lion International Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
35.58b Br	31.2b Br	2.63b Br	4.7b Br	3.9b Br	489.52m Br	187.3 Br
7.9pc ↑	7.1pc ↑	2.3pc ↑	17pc ↑	25pc ↑	82pc ↑	76.4pc ↑

Illustrated by: *Fortune*

Source: Lion International Bank Annual Report 2022/23

"This is very shocking," said Abdulmenan, "Executives should explain."

The Bank's President or Board Chairman were not available for comment despite repeated attempts by Fortune.

However, the Bank's strategic focus on improving loan performance appears to be paying off, with a reversal from a loss of 518.89 million Br in 2021/22 and 689.75 million Br in the previous year to a rebound gain of 38.77 million Br. Nonetheless, the provision for impairment of other assets has surged to 265.43 million Br, indicating potential vulnerabilities in asset quality that could pose risks to the Bank's financial health.

Lion Bank's asset base grew by 7.9pc to 35.58 billion Br, with loans and advances increasing by 12.13pc to 26.69 billion Br. The growth in assets and loans underpins the Bank's recovery efforts and commitment to expanding its lending operations. However, its deposit mobilisation, which saw a 5.2pc increase to 27.31 billion Br, suggested a cautious approach by depositors, possibly influenced by the Bank's recent adversities.

During the annual meeting at the Hilton Hotel in December, Lion Bank's President Daniel told shareholders the performance lagged behind some of its peers, attributing it to the belated recovery from the turmoil of conflict.

"Its current recovery should be encouraged," he noted.

The Bank's operational stability was put to the test during the war in Tigray Regional State, which broke out in November 2020, with half of its 278 branches temporarily out of operation and employees displaced. Board Chairman Alem Asfaw sees the reinstallation and reopening of branches as a significant undertaking that subjected the Bank to increased rehabilitation costs. These operational challenges were further compounded by rising non-performing loan (NPL) ratios and difficulties in loan recoveries.

Despite these limitations, Lion Bank's executive team, under the presidency of Daniel Tekeste, has been responsible for steering the Bank towards recovery. Daniel, who has over two decades of experience in banking, including a tenure with the state-owned Commercial Bank of Ethiopia (CBE), has overseen the addition of 10 new branches, expanding Lion Bank's footprint to 288 branches.

Hareg Terefe, deputy manager at the Stadium Branch, worked for 11 years. She believes that fewer loans to customers impacted the Bank's ability to earn more interest income, despite her branch's location being favourable for getting corporate customers.

"We've a long way to go," she told Fortune.

Under Daniel's watch, the Lion Bank has also wrestled with a high turnover rate of 10pc of 5,667 workforce, one of the highest rates in the industry, calling for strategies to retain talent and enhance operational efficiency.

Lion Bank's efforts to bolster its financial standing have seen its paid-up capital grow by 2.3pc to 2.63 billion Br, a move aimed at consolidating its capital base ahead of the Central Bank's minimum threshold capital of five billion Birr set for 2026. However, its capital adequacy ratio (CAR) slightly declined to 13.3pc, signalling a need for continued attention to maintain financial stability.

Its liquidity position presents a mixed picture. While its cash and bank balances grew by 2.9pc to 3.92 billion Br, the ratio to total assets has slightly declined. This, coupled with a loan-to-deposit ratio increase to 97.7pc from 91.7pc, raises concerns about potential liquidity constraints. Such a ratio level is one of the highest in the industry, calling for prudent liquidity management.

"There should be extra caution," Abdulmenan said.

Shareholders like Mekonnen Tesfaye expressed concerns about the return on their investments, especially when compared to dividends from other banks, such as Awash Bank, which leads with a net profit of 6.9 billion Br. His observations on the need for improvements reflect Lion Bank's broader challenges in enhancing its competitiveness and appeal to the market.

"They should work on changing customer service culture and expand their digital sphere," he recommended ●

Nib Bank Sails Through Stormy Governance, Liquidity Waters to Steer Growth

Nib International Bank (Nib Bank) has etched a place of steady growth in its operations for the fiscal year 2022/2023 despite formidable governance challenges and liquidity constraints. The Bank has distinguished itself as a key player among the first and second-generation private commercial banks, demonstrating its entrenched presence in the industry.

Posting a net profit of 1.51 billion Br - a 12.7pc growth from the previous year - Nib Bank has successfully manoeuvred through stringent oversight from regulators and tight liquidity conditions to secure profitable outcomes.

The departure of its former Board Chairman, Woldetsenay Woldegiorgis, right after presenting the annual report to shareholders at the Inter-Luxury Hotel in December, brought a period of transition. The intervention by officials from the National Bank of Ethiopia (NBE) to oversee the election of new board members, citing corporate governance violations and repeated complaints, marked a significant moment in the Bank's governance, leading to the election of Shisema Shewaneka as the new board chairman.

Despite the topsy turvy, Nib Bank's performance has been commendable, considering its growth rate and profit margins relative to its peers, nearly doubling those of Wegagen and trails behind Hibret Bank's 2.3 billion Br profit.

Nib International Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
77b Br	67b Br	6b Br	8.9b Br	7b Br	1.51b Br	139 Br
25.3pc ↑	25.6pc ↑	24.5pc ↑	27.5pc ↑	32.8pc ↑	12.7pc ↑	4.7pc ↓

Illustrated by: *Fortune* Source: Nib International Bank Annual Report 2022/23

However, a concerning trend for the Bank has been the steady decline in its earnings per share (EPS), which fell by seven Birr from the previous year to 139, amidst a central bank memo restricting dividend distributions in a bid to recapitalise. The increase in Nib Bank's paid-up capital by 24.5pc to six billion Birr, surpassing regulatory minimums, and a capital adequacy ratio (CAR) of 15.7pc, nearly double the regulatory requirement, reflects a strong capital base.

These measures, coupled with operational strategies aimed at enhancing branch and employee productivity, were crucial as the Bank sought to improve its competitive position in the industry.

With an EPS for 16 private banks averaging 32.7pc, Nib Bank's falls by 1.7 percentage points and significantly below Dashen Bank's outstanding 58.3pc. For industry analysts, these indicators suggest that while Nib Bank has been generating shareholder value, there is ample room for enhancing profitability to close the gap with industry leaders.

Tekeba Haileselassie, a shareholder for 15 years with one million Birr stakes, expressed dissatisfaction with the Bank's dividend policy and governance stir, reflecting broader shareholders' concerns about the Bank's direction.

"I've little faith in the new Board, too," he told *Fortune*.

The shareholder, who has stakes in other banks and real estate companies, wants to wait for a while to see how the new Board performs before contemplating selling his shares. His criticisms also extend to the Bank's customer service and operational decisions, including branch locations, revealing areas for potential improvement in meeting industry standards.

"They're not wise even when picking locations for branches," said Tekeba, with a tone of frustration.

Incorporated 24 years ago with a paid-up capital of 27.6 million Br raised from 717 founding shareholders, Nib Bank has grown its branch network to 441, with a modest increase in staff numbers to 7,661. The Bank has total asset base of 77 billion Br. This positions Nib Bank as a mid-tier entity, demonstrating its solid fundamentals but also indicating potential for growth and increased market competitiveness.

The Bank's operational expenses, including wages and benefits, have significantly increased, outpacing some of its peers. The London-based financial analyst, Abdulmenan Mohammed (PhD), attributed Nib Bank's profit performance to a surge in interest income, tempered by rising expenses and the impacts of capital injections on EPS.

"Soaring expenses undermined further growth in interest income," he told *Fortune*.

The Bank reported a 30.2pc increase in interest income from loans,

We'll boost deposits and lower the ratio.

Genene Ruga

President

commissions and fees declined by 8.1pc to 640.27 million Br. The decline ought to be disappointing in light of the preceding year's growth of 42.2pc, according to Abdulemenan.

Foreign exchange dealings posed another area of disappointment, with losses growing nearly fivefold due to the depreciation of the Birr against the Dollar.

Despite these drawbacks, Nib Bank's deposit and loan portfolios demonstrated a strength. Its interest on savings rose by 30pc to 3.25 billion Br, with other operating expenses climbing by 23.4pc to 929.43 million Br. The growth in expenses, according to Abdulmenan, has paralleled revenue increases, showing the need for efficient expense management to sustain profitability.

Nib Bank's President, Genene Ruga, believes this reflects the broader economic pressures facing banks, including double-digit inflation.

With a background in agricultural economics from Addis Abeba University and post-graduate studies in business administration from Indra Ghandi National University in India and post graduate diplomas in financial management. Genene remains upbeat about steering the bank towards greater achievements. He sees the Bank's asset expansion, with total assets growing by 25.3pc to 77 billion Br, reflecting a strategic focus on broadening its financial base and enhancing its market presence.

Nib Bank's approach to liquidity and asset management has been a focus of its executives' strategy. With total deposits growing by 19.3pc to 59.36 billion Br, Nib Bank has achieved significant growth but faced liquidity pressures, as evidenced by a high loan-to-deposits ratio of 89.74pc, showing a notable uptick from the previous year's 78.26pc.

The liquidity ratio and the Bank's reliance on 2.5 billion Br borrowing from the central bank to respond to cash shortages brought to the surface the need for refined liquidity management practices to ensure stability and responsiveness to market demands. The Bank's liquidity situation should be a cause of concern, according to Abdulmenan, who urged a thorough reassessment of its liquidity management practices to prevent future issues.

In response to the liquidity challenges, particularly noticeable in the second quarter, Genene acknowledged the seasonal (for tax and upsurge in demand for agricultural produce) demand for cash but remains optimistic about addressing these challenges.

"We'll boost deposits and lower the ratio," Genene told *Fortune*.

However, Tebebu Dereje, Nib Bank's Tewodros Branch manager, noted that his branch did not experience such liquidity issues, due to a robust base of corporate customers. It has even led to customers from other branches seeking services at his location for withdrawals, according to Tebebu.

"Customers from other branches came to us to withdraw cash," he told *Fortune*.

Nib Bank has registered a notable reduction in its provision for loan impairments, which fell to 103.98 million Br from 164.44 million, marking a significant improvement in its financial health. Its provision levels are nearly on par with Hibret Bank and substantially lower than Wegagen Bank's 593.66 million Br, indicating a competitive positioning in the market.

"The reduction should be encouraged in the industry," said Abdulamenan.

The decline in provisions comes alongside a modest drop in non-performing loans (NPL) of 1.91pc, representing a little more than half the average for the 16 private banks.

In a year marked by aggressive expansion, Nib Bank's loan and advance portfolio grew by 36.8pc to reach 53.27 billion Br. This growth outpaces Wegagen Bank's portfolio and is only slightly behind Hibret Bank's, demonstrating Nib's assertive lending strategy. Despite its aggressive lending, liquidity concerns have emerged as a critical area for the Bank, with cash and bank balances declining by 21pc to 12 billion Br. These balances were greater than Hibert's 9.23 billion Br and three billion Birr higher than Wegagen Bank ●

Oromia Bank's Strategic Advance Yields Growth in Cutthroat Banking Industry

Oromia Bank has emerged as a noteworthy player in a highly competitive industry, carving out a steady growth path, as evidenced by its recent financial results.

Its profit surged by 600 million Br to 1.58 billion Br, a 31.7pc growth, a trend its leaders credited to operational efficiency and strategic planning. Although the earnings per share (EPS) were much lower than posted in 2018 (525 Br), they have grown by 5.5pc from last year to 324 Br. However, the Bank's robust performance is overshadowed by its peers, such as the Cooperative Bank of Oromia (Coop) and Hibret Bank, which have netted significantly higher profits.

Assefa Seme (PhD), the board chairman, attributed this growth to implementing a three-year strategic plan to transform the Bank's operations.

"The strategic focus is not just on growth," said Assefa. "It's also on managing the Bank's expense profile, a critical factor in sustaining long-term profitability."

Teferi Mekonnen, president of Oromia Bank, echoes this sentiment, emphasising the importance of cautious expansion and prudent staff hiring.

Oromia Bank's income growth was noteworthy, particularly in its primary revenue streams. The Bank saw a 44.3pc increase in income from interest on loans, advances, and investments in treasury bills and bonds. Income from interest-free financing, fees, and commission also showed significant increases, rising by 44.3pc and 52pc, respectively.

However, this revenue growth has been accompanied by a corresponding expense increase.

The total expenses of Oromia Bank rose to 6.3 billion Br, with interest expenses and distributions to interest-free depositors climbing by 46.3pc.

These numbers, while substantial, are still less than half of what the Cooperative Bank of Oromia has reported. Oromia Bank's wage and benefits expenses, reflecting an industry-wide trend, increased by 51.3pc, and general administration expenses grew by 53.9pc.

The spike in expenses has drawn the attention of industry experts like Abdulmenan Mohammed (PhD), who caution vigilance in managing expense growth to sustain profitability.

The management has noticed it. Reducing expenses has been amongst Oromia Bank's strategies, particularly on administrative expenses and time deposits, according to Teferi.

"We'll be mindful over opening new branches and hiring staff," said Teferi.

Oromia Bank has shown prudence in its expansion efforts. In the fiscal year 2022/23, the Bank inaugurated 103 new branches, taking its total count to 503. However, the expansion has been tempered with heedfulness as

Teferi disclosed the Bank's restrained approach towards opening new branches and hiring new staff.

Dechassa Fanta, a branch manager in the Mexico area, recalled the "unfair competition" the Bank faced, particularly in the construction sector's downturn and the consequent liquidity crunch. Despite these hurdles, he expressed confidence in the Bank's ability to manage liquidity effectively, citing its robust Real-Time Gross Settlements (RTGS) capabilities.

Experts commend Oromia Bank's approach to risk management, particularly in loan provisioning. The Bank's provision for impairment of loans and other assets stood at a reasonable 70.2 million Br, significantly lower than its peers. This can be attributed to the Bank's lower non-performing loan (NPL) ratio of 1.6pc, which is three-fold lower than the industry average.

Teferi's leadership has been instrumental in guiding Oromia Bank through these challenging times. With a banking career spanning 25 years, including a 13-year tenure at Oromia Bank, his experience and strategic vision have been crucial. Under his leadership, the Bank has achieved a historic high in foreign currency generation, with a 33pc surge to 371 million dollars.

Oromia Bank's journey in the Ethiopian banking sector began in 2008, with a paid-up capital of 91 million Br raised from 5,000 founding shareholders. Today, the Bank's paid-up capital has grown to 5.37 billion Br, a 22.9pc increase from the previous year. Although its capital adequacy ratio has declined to 17.2pc from 21.3pc, it remains robust, especially compared to its peers.

One of its 15,000 shareholders, Tilahun Girma, holding shares valued at 150,000 Br, emphasised the importance of financial inclusivity and the need to focus on the unbanked segment of the population.

"Financial inclusivity is important," he told *Fortune*.

It is a perspective crucial in an environment marked by relentless inflationary pressures and the impending entry of foreign banks into the market.

Ranked seventh among 15 banks in total assets, Oromia Bank holds its own in a sector dominated by giants like Awash Bank (183.3 billion Br) and Abyssinia Bank (149.4 billion Br). While not leading the sector, the Bank's Return on Assets (RoA) of 2.3pc and the 17.7pc Return on Equity (RoE) are competitive. The industry's leaders in RoA - Zemen (4.3pc) and Addis International (3.9pc) - set a benchmark, with the industry average trailing slightly behind.

Oromia Bank operates in a sector where EPS ranges from 57pc to 15.6pc. However, the sector's top performers - Awash (25.8pc) and Abyssinia (24.7pc) - have much larger returns on equity compared to its 17.7pc. The average for the 15 private banks was 19.8pc.

Oromia Bank's total assets have expanded by 25.7pc to 65.41 billion Br. Its loans, advances, and interest-free financing have increased by 32.9pc to 41.56 billion Br. The Bank's deposit base also grew by 24.8pc to 54.27 billion Br. While these figures are impressive, they are still overshadowed by its peers like Cooperative Bank of Oromia (64 billion Br) and Hibret Bank's over 120 billion Br. The loan-to-deposit ratio of Oromia Bank, which stands at 76.6pc, indicates potential for further lending.

Contests the President: "It [the ratio] is healthy and meets the regulatory standard."

Oromia Bank has seen a relative decline in its liquidity level in relative terms, despite an absolute increase in cash and bank balances. Cash and bank balances increased by 12.1pc to 10.99 billion Br. It is a bit higher when compared to Hibret Bank (9.23 billion Br) and Wegagen Bank (9.06 billion Br). Cash and bank balances to total assets ratio decreased three percentage points, and cash and bank balances to total liabilities declined to 19.4pc from 21.7pc. Hibret Bank stands at 11.2pc while Wegagen Bank's is far higher at 16.9pc.

However, its loan-to-deposits ratio increased by 4.6 percentage points to 76.6pc, signalling room for more lending, according to Abdulmenan. The Bank's investment in government securities, amounting to 5.25 billion Br, represents a significant portion of its total assets.

Oromia Bank's future strategy appears to be focused on enhancing its market position, especially in comparison to larger rivals. Improving operational efficiency is likely to be a key focus, given the varied cost-to-income ratios across the industry.

Though not at the forefront, Oromia Bank maintains a considerable market presence. Its competitive strategy could be geared towards enhancing its market position, especially in light of larger rivals like Awash and Abyssinia. Improving operational efficiency might be critical, given the varied cost-to-income ratios across the sector, a key factor experts see for sustaining growth.

"This strategic approach will be crucial for sustaining profitability in a competitive banking environment," said Abdulemenan ●

Oromia Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
65.4b Br	56.7b Br	5.37b Br	8.3b Br	6.3b Br	1.58b Br	324 Br
25.7pc ↑	25.5pc ↑	22.9pc ↑	43pc ↑	47pc ↑	31.7pc ↑	5.5pc ↑

Illustrated by: *Fortune* Source: Oromia Bank Annual Report 2022/23

We'll be mindful over opening new branches and hiring staff.

Teferi Mekonnen, President

Wegagen Bank Capitalises on Peace, Delivers Rising Dividends to Shareholders

Abdishu Hussien, board chairperson and Aklilu Wubet, president of Wegagen Bank during the annual general assembly.

Wegagen Bank's road to recovery has been cemented following the restoration of peace in Tigray Regional State, where the majority of its branches operate. Its executives were able to reopen the 112 branches that had closed during the two-year war in the region, which came to an end a year ago after the warring parties signed an accord in Pretoria, South Africa, in November 2022.

Peace brought back a stable yet progressive trajectory for Wegagen Bank in an increasingly competitive industry. Despite its recent turbulent past, it has maintained a solid presence, underpinned by significant assets and a strong equity base. Board Chairman Abdishu Hussien reassured some of the 11,345 shareholders recently met at the Hilton Hotel that the strategic steps taken to restore the Bank's presence, including the introduction of treasury bonds, have paid off.

However, banking experts caution areas that require strategic focus to enhance its performance, including profitability per share, equity efficiency, and asset utilisation.

Incorporated in 1997 with 60 million Br equity raised from 16 shareholders, Wegagen Bank has seen its total assets grew by 24pc to 53.49 billion Br. Its paid-up capital increased by 17.4pc to 3.98 billion Br, though it still falls short of the regulatory minimum threshold set for 2026. Despite a decline in the capital adequacy ratio, the Bank maintains a strong capital position. During the prior year general assembly, shareholders passed a resolution to increase the paid-up capital to 20 billion Br, reminiscing over the times when they received as high as 50pc in dividends.

> **Wegagen has a good liquidity position.**
>
> **Aklilu Wubet (PhD)**
>
> **President**

Alazar Abebe, a shareholder for a decade, acknowledged the Bank's progress but suggested that consolidation could be beneficial to enhance capacity and rebrand the Bank, which he believes has been marred by political undercurrents.

"They should consider a merger," he told *Fortune*.

However, Wegagen has shown a commendable performance for the second consecutive year. Its asset and equity figures place it in a mid-to-upper tier position among its peers, a status that becomes more evident when considering the Bank's profitability. Its net profit rose by 49.4pc to 823.82 million Br, marking a significant improvement over the previous year. Nonetheless, Wegagen's earnings still trail behind peers such as Nib and

Hibert banks, which reported profits of 1.5 billion Br and 2.29 billion Br, respectively.

The earnings per share (EPS) also increased to 22.7pc from 16.6pc, although it remains half the average among the 15 top private banks in the industry of 30.

Wegagen Bank's notable achievement in the past operational year was turning a loss of 279.73 million Br in foreign exchange into a gain of 106.78 million Br. Industry analysts such as Abdulmenan Mohammed (PhD) praised this turnaround as a "remarkable achievement." The credit for this turnabout goes to the Bank's executive team, led by its President, Aklilu Wubet (PhD), who assumed executive mantle in February 2022.

Under Aklilu's stewardship, Wegagen Bank has reinforced its stature in the banking industry, focusing on healthy loan disbursement and maintaining foreign currency reserves. Aklilu attributed the importance of narrowing the gap between foreign currency liability and assets and timely settlement of letters of credit to reversing the previous losses.

The Bank's total equity stands at 6.9 billion Br, a significant figure when viewed against its total liabilities and assets of 46.5 billion Br and 53.5 billion Br, respectively.

Its Return on Equity (ROE) and Return on Assets (ROA) stand at 22pc and 1.7pc, respectively. Top performers like Awash and Abyssinia banks boast ROAs of 4.3pc and above. Though moderate, these point to average performance in asset and equity management, crucial indicators of a bank's efficiency in using its resources to generate profits. The average ROE for the 15 banks was at 19.8pc.

Wegagen Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
53.5b Br	46.5b Br	3.98b Br	7b Br	5.8b Br	823.8m Br	227 Br
24pc	24pc	17.4pc	36pc	27pc	49.4pc	36.7pc

Illustrated by: *Fortune*

Source: Wegagen Bank Annual Report 2022/23

Wegagen Bank's operational expenses, however, have been managed effectively. Interest paid on deposits rose by 8.8pc to 1.97 billion Br, and while wages and benefits increased by 52.5pc to 2.44 billion Br, other operating expenses saw a decline by 24.7pc to 767.25 million Br. The controlled increase in expenses stands in contrast to the higher expenses incurred by its peers, Nib and Hibert banks.

Aklilu attributed the cost efficiency to a strategic approach towards procurements and selective time deposits.

"Procurements were done very carefully," he told *Fortune*.

The Bank's provision for impairment of loans and other assets soared to 593.66 million Br, a figure that experts suggest warrants close monitoring. The provision marks a significant increase compared to its peers.

Hussien Harun, manager of the Goffa branch with 17 years of experience, attributed the Bank's efforts to reviving and attracting new clients to a focus on improving customer service.

"We reconnected with clients to improve customer service," he said.

The financial and non-financial intermediation income of Wegagen Bank saw a substantial increase. Interest on loans, advances, treasury bills, bonds, and other savings accounts rose by 33.8pc to 5.42 billion Br, while fees and commission income soared by 52.7pc to 1.37 billion Br.

Wegagen's disbursement of loans and advances stood at 38.29 billion Br, lower than the industry's top performers and the figures reported by Nib and Hibret banks. It has mobilised deposits of 42.79 billion Br, an increase of 26.19pc, with its loan-to-deposit ratio rising to 89.48pc. However, its liquidity position dropped in value and relative terms, with cash and bank balances declining by 12.2pc to 9.06 billion Br, and the ratio of liquid assets to total assets dropping to 16.9pc.

Analysts see the liquidity issue as a concern.

"Pushing it beyond a certain level would undermine the liquidity," said Abdulemanan.

Aklilu, who manages a workforce of 5,071 employees across 410 branches, remains confident.

"Wegagen has a good liquidity position," he told *Fortune* ●

Zemen Bank Redefins Success in Banking Giants' League

Zemen Bank, a relatively modest player in the banking industry, has recently demonstrated an ability to punch above its weight in profitability and asset management, outperforming several of its larger competitors. Its noteworthy performance comes when the industry is becoming increasingly competitive, with more prominent banks dominating the market in equity and deposit mobilisations as well as loans and advances.

Zemen Bank's reported profit grew 22.3pc, reaching 1.81 billion Br, notably exceeding the average profit of 15 private commercial banks by 400 million Br. The Bank's profitability was also substantially higher than its peers, including Berhan, Bunna, and Oromia banks, marking a significant achievement for a financial institution of its size.

Despite the impressive profitability, Zemen Bank experienced a decline in Earnings per Share (EPS), which dropped by 25 Br to 430 Br. This dip, however, did not dampen the spirits of shareholders, who remained optimistic about the Bank's future.

Dereje Zenebe, president of Zemen Bank, addressed the shareholders' meeting held at the Millennium Hall four weeks ago and attributed the decline in EPS to recapitalisation, the Bank's investments in technology and skills acquisition.

An alumnus of Adds Abeba and Lincoln universities, Dereje came to the leadership of Zemen five years ago after a quarter century in the financial sector, including stints at Wegagen and Awash banks. Under his watch, Zemen Bank has also increased its paid-up capital by 37.2pc, reaching the regulatory minimum threshold regulators of the central bank set, with a deadline in 2026.

However, the Bank's EPS of 43pc displays its robust earnings capacity, eclipsing the industry average of 38.4pc.

Zemen Bank financial performance in 2022/23

Total Assets	Total Liabilities	Paid-up Capital	Income	Expense	Profit After Tax	Earning per Share
47.78b Br	39.3b Br	5b Br	5.74b Br	3.24b Br	1.81b Br	430 Br
36.1pc ↑	36.18pc ↑	37.2pc ↑	39.7pc ↑	55pc ↑	22.3pc ↑	5.4pc ↓

Illustrated by: *Fortune*

Source: Zemen Bank Annual Report 2022/23

Dereje Zenebe, President

Ermias Eshetu, Chairperson

Its Return on Equity (ROE) and Return on Assets (ROA) were 24.3pc and 4.3pc, respectively, comfortably above the 19.8pc and 2.4pc industry averages.

Zemen Bank's performance in the industry is particularly notable given its undersized stature compared to larger competitors. The Bank's total equity stood at 8.4billion Br, nearly double its modest capital, while its total liabilities amounted to 39.3 billion Br, representing half the average for the 15 private banks. Along with its conservative leverage position, this tells of a cautious yet effective approach to risk management that Dereje and his directors have taken.

While larger banks such as Awash, Abyssinia, and Dashen continue to dominate in size and market share, Zemen Bank's achievements illustrated that smaller institutions can compete effectively through operational efficiency and profitability.

Substantial income growth from financial intermediation accompanied Zemen's growth as interest on loans, advances, and central bank bonds grew by 64.6pc to four billion Birr. The surge in income is attributed to increased extension of credits and more investment in securities combined with an increase in lending rates. The income from fees and commissions, gains from foreign exchange dealings and other activities swelled to a very modest figure of three percent to 1.73 billion Br.

However, the Bank's performance is not without its drawbacks.

The London-based financial statement analyst Abdulmenan Mohammed (PhD) recommended a watchful eye on the Bank's management on the interest expenses, wage hikes, and other operating expenses.

"These need serious attention," he cautioned.

Zemen Bank's operating expenses have seen significant increases, with interest expenses rising by 46pc to 1.37 billion Br and wages up by 46.9pc to 954.29 million Br. The rising costs have prompted calls from financial analysts and shareholders for a more mindful approach to expense management.

Incorporated in 2008 with 2,800 shareholders, Zemen Bank has built a robust capital base, with capital and non-distributable reserves increasing by 37.4pc to 7.13 billion Br. With its capital adequacy ratio (CAR) of 21.3pc, the Bank's total assets expanded by 36pc to 47.78 billion Br, a figure that, while lower than industry giants like Dashen and Awash, demonstrates a strong growth trajectory.

Founding shareholder Assefa Tefera is content with the outcome.

"I'm generally satisfied with the performance," he told *Fortune*.

However, he wants to see "unnecessary expenses" curtailed; he would have liked to have the general assembly held at the Bank's newly inaugurated headquarters on Ras Abebe Aregay St., instead of outside venues.

Dereje attributed the surge in expenses to branch expansions, increased IT costs, and the prevailing inflationary pressures. Over the past year, Zemen Bank has expanded its network,

It's a reasonable increase.

Abdulmenan Mohammed

Financial Analyst

opening 23 new branches, bringing the total to 102.

"The Bank's profitability per branch is top of the industry," he told *Fortune*.

Mahlet Girma manages one of these branches, located at Zemen's headquarters. Worked for the Bank for 15 years, she is pleased with the progress the Bank has made in loans, deposits, foreign currency and online banking. She observed a prevailing liquidity problem that plagued the industry last year, which could have caused problems but was avoided by "careful management."

"We managed it better than others," Mahlet told *Fortune*.

Zemen Bank has maintained a strong position in loans and asset provisioning. Its provision for loans and assets impairment showed an increase of 125pc, signalling a cautious approach to cushion potential risks. The Bank's liquidity position has also evolved, with its cash and bank balances growing by 10.7pc to 8.91 billion Br. Zemen's ratio of cash and bank balances to total assets decreased to 18.6pc from 22.9pc.

"It maintained a reasonable amount of liquid resources," said Abdulmenan.

However, the ratio of these balances to total assets has declined, denoting a shift in the Bank's liquidity management strategy.

The Bank has shown remarkable growth in its loan and deposit portfolios. Total loans and advances reached 31.39 billion Br, posting a growth of 48.6pc, while total deposits increased by 38pc to 37 billion Br. Zemen Bank's deposit mobilisation was lower than Oromia Bank's 54.3 billion Br, while slightly higher than Berhan's 33.8 billion Br and Bunna's 36.6 billion Br. Its loan-to-deposit ratio, hailed by Abdulmenan as "ideal" grew by six percentage points from 78.6pc the prior year.

Board Chairman Ermias Eshetu promised the 7,957 shareholders that a five-year strategy under implementation would help Zemen Bank maintain a competitive edge in the industry poised for opening up for overseas banks●

ZamZam Bank Charts Historic Turnaround in Islamic Finance

■ *Trailblazer in Islamic banking marks a resurgence and eyes expansion*

Melika Bedri, president and Nasir Dino, board chairperson of ZamZam Bank during the general assembly.

ZamZam Bank S.C., the pioneering Islamic financial institution, has charted a course from turbulent financial waters to profitability, marking a significant turnaround in its operations. Revealed during a recent shareholder meeting at the Millennium Hall, company directors and executives spoke of the Bank's resilience in the face of economic adversities and its strategic insight in navigating the unique landscape of Islamic banking.

Nasir Dino (PhD), chairman of the Board, and Melika Bedri, the Bank's President, presented these upbeat financial results before thousands of shareholders, reflecting on the Bank's journey since its inception. ZamZam Bank, which had weathered a loss of 145.42 million Br in its first year, has reversed its fortunes, posting a net profit of 24.1 million Br. The shift is primarily attributed to the Bank's strategies for boosting its income through financing and investment activities.

> **It's a rewarding investment.**
>
> **Nadim Abdulemed**
>
> **Founding Shareholder**

ZamZam's aggressive expansion strategy, encompassing the opening of 35 new branches within the year, played a crucial role in its financial turnaround. The expansion resulted in a significant increase in income from financing and investment activities, soaring to 337.57 million Br, up from 6.85 million Br in the previous year. According to company executives, this growth trajectory highlights the Bank's robust approach to market penetration and customer reach.

Running the branch in Haji Ture Building at the heart of Merkato, which averages 14,000 customers annually, Yesun Taye attributed the increased earnings to expanding branches across the country.

"Businesspeople across the regional states have used our branches well," he told *Fortune*.

Nasir, a long-time proponent of Islamic banking in Ethiopia, emphasised the Bank's success despite global and domestic economic challenges. He assured shareholders of prospective profit-sharing in the coming years, signalling confidence in ZamZam's continued growth. Nasir unveiled plans for constructing ZamZam's headquarters on a 4,135sqm plot in Addis Abeba financial district.

However, financial analysts like Abdulmenan Mohammed (PhD) caution about the rising operational cost, a byproduct of the Bank's rapid expansion. He noted wages and benefits have tripled to 295.96 million Br, and general administration expenses more than doubled to 196.71 million Br, calling for strategic financial management to sustain the growth momentum in the forthcoming years.

Binyam Tesfaye, the executive assistant director for the President of the Bank, attributed the profit to prudent loan portfolio management, strategic marketing, and effective cost management, despite the complexities of a Sharia-compliant financial model.

"We have optimised our expense management," he told *Fortune*.

ZamZam's total assets have witnessed a substantial increase of 137.3pc to 7.49 billion Br, indicating robust growth and a solid financial position. The Bank has also significantly increased its disbursement of interest-free financing, including profit receivable on Murabaha, reaching 4.34 billion Br, a fourfold increase from the previous year. The Mudarabah investment scheme, a profit-sharing arrangement with depositors instead of traditional interest, has dramatically increased to 8.07 million Br from 338,300 Br in the previous year.

Melika Bedri, President

Biniyam revealed that ZamZam Bank is crafting a road map for efficient capital deployment with an increased focus on customer acquisition and retention, investment diversification, loan portfolio expansion, and innovation in interest-free products.

With a significant Muslim population, Ethiopia offers an attractive market for Islamic banking, a sector that was untapped until the emergence of ZamZam Bank in 2021. ZamZam Bank, named after the Holy Spring in Mecca, commenced with a substantial initial capital base of 872 million Br paid-up and 1.68 billion Br subscribed. Over the year, its 13,000 shareholders have increased the paid-up capital by 26.9pc to 1.7 billion Br. The capital infusion, although significant, is still short of the minimum threshold set for 2026 by the National Bank of Ethiopia (NBE).

However, shareholders' anticipation of profit sharing remains high, with optimism about the future of the Islamic banking industry. Nadim Abdulemed, one of the 11,200 founding shareholders retaining shares valued at 40 million Br, has expressed confidence in the Mudarabah investment scheme offered by ZamZam, describing it as a "rewarding investment."

Nadim recommends Bank executives focus on digital core banking and customer service, staying one step ahead of peers.

ZamZam is focused on digital core banking and customer service enhancement platforms. Melika, a notable figure in the Ethiopian banking industry, disclosed the development of an in-house mobile application and partnership with EthSwitch for interbank connectivity. Her leadership, marked by a tenure as the Chief Financial Officer at the state-owned Commercial Bank of Ethiopia (CBE), has been instrumental in navigating the Bank through its formative years.

The foray into Sharia-compliant banking has set a precedent for others in the industry, such as Hijira Bank, with ZamZam leading the way.

Its financial performance is noteworthy. Private banks' average assets and liabilities were 62.9 billion Br and 50.5 billion Br, respectively, last year, indicating the scale of operations and trust from depositors. The net interest income averaged at 3.4 billion Br, with an average net profit close to 1.3 billion Br. The Return on Assets (RoA) and Return on Equity (RoE) averaged 2.36pc and 17.69pc, respectively, highlighting the efficiency of asset and equity usage in generating profits.

ZamZam's liquidity measures were also promising, with cash and bank balances (20.5pc) representing a healthy share of its total assets and liabilities (26pc). Its capital adequacy ratio (CAR) stood at 35.6pc, signalling a substantial resource pool for future expansion in interest-free financing and investment activities. It has mobilised 4.98 billion Br in savings from 266,394 accounts, a 214pc jump, and its interest-free financing to saving ratio has surged to 87.15pc from 52.9pc from its inaugural year.

"It's a remarkable improvement," said Abdulmenan

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Bank of Abyssinia

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